



CHARTERED TAX INSTITUTE OF MALAYSIA (225750 T)
(Institut Percukaian Malaysia)

PROFESSIONAL EXAMINATION

INTERMEDIATE LEVEL

FINANCIAL ACCOUNTING

DECEMBER 2020

Student
Registration No.

Date

Desk No.

Examination Centre

Time allowed: 3 hours

INSTRUCTIONS TO CANDIDATES

1. You may answer this paper **EITHER** in English **OR** in Bahasa Malaysia. Only **ONE** language is to be used.
2. This paper consists of **FOUR** questions.
3. Answer **ALL** questions.
4. Each answer should begin on a separate answer template.
5. All workings **MUST** be shown as marks will be awarded.

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Question 1

The trial balance for SSS Bhd as at 31 July 2019, is shown below:

	Debit	Credit
	RM 'million	RM 'million
Share Capital		900
Revaluation surplus		40
Equity investment reserve		71
Investment income		22
Revenue		1,200
Cost of sales	790	
Distribution cost	86	
Administration expenses	259	
Land and buildings at valuation	750	
Accumulated depreciation 1 August 2018 – Buildings		60
Plant & Equipment	475	
Accumulated depreciation 1 August 2018 – Plant		175
Intangible assets at cost	100	
Financial assets	260	
Inventory as at 31 July 2019	140	
Trade receivables and trade payables	194	244
Cash and bank balances	20	
Provision for warranty cost		18
Retained earnings reserve		<u>344</u>
	3,074	3,074

Additional Information:

1. Land and buildings were last revalued on 1 August 2014, when the land was valued at RM150 million, and the buildings at RM600 million. A loss of RM50 million was charged to profit or loss in respect of revaluation of the land. A further revaluation exercise took place on 31 July 2019, resulting in a value of RM180 million for the land and RM580 million for the buildings. Land and buildings are treated as a single asset for the purpose of revaluation. The existing revaluation surplus on the trial balance relates solely to plant and equipment. No revaluation of plant or equipment was deemed necessary during the current year. SSS Bhd treats depreciation as a charge to cost of sales. SSS Bhd has yet to charge depreciation for the year to 31 July 2019.
2. SSS Bhd depreciates plant and equipment at 20%, using the diminishing balance basis.
3. Intangible assets relate to several ongoing projects, were launched into the market during the year. These represent RM30 million of the total balance. SSS Bhd wishes to amortise these over 5 years on a straight line basis, applying a full year's charge in the current year. Further development costs of RM12 million were included in administration expenses that meet the recognition criteria of an intangible assets. No amortisation should be charged except as indicated above.
4. The Financial assets represent equity investments. Fair value of financial assets is RM310 million at 31 July 2019, which has not been recognized in the financial statements. SSS Bhd has made an irrevocable election to present in other comprehensive income all fair value gain or loss on equity investments as permitted by *MFRS 9 - Financial Instruments*.

5. Revenue includes RM40 million of goods sold to various customers on a sale or return basis. These goods have not been paid yet. Payment is due when the customer sells the goods before 31 October 2019. Otherwise, goods are to be returned to SSS Bhd undamaged. The average mark-up on these goods is 25% of cost.
6. The corporation tax charge for the year has been estimated at RM29 million. Ignore the taxation effects on any adjustments you make.
7. SSS Bhd offers a 12-month warranty on all goods sold to retail customers and maintains a provision for the expected cost of honouring this warranty is recognized is a provision. On 31 July 2019, SSS Bhd has estimated the cost of honouring this warranty over the next 12 months to be RM23 million. All costs are expected to be incurred within 12 months.

Required:

Prepare the following, in a form suitable for publication, after taking into consideration the additional information:

- (i) **A Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 July 2019;** (12 marks)
- (ii) **A Statement of Changes in Equity for the year ended 31 July 2019;** (6 marks)
- (iii) **A Statement of Financial Position as at 31 July 2019.** (12 marks)

[Total: 30 marks]

Question 2

- (a) Jack Lee operates a sole proprietorship bakery outlet at a local food court in Shah Alam. Although most of the bakery's transactions are in cash, Jack Lee also maintains a bank current account for the business.

Below is the record of the "Cash in Bank" for May 2020:

		Note	RM	RM
01 May 2020	Balance in Bank Account			1,000
Deposits in May 2020				
05 May 2020	Cash deposit		500	
12 May 2020	Cheque deposit (No. SB 6543)		600	
21 May 2020	Cash deposit	(1)	850	
26 May 2020	Cheque deposit (No. HB 9856)	(2)	<u>890</u>	<u>2,840</u>
				3,840
Withdrawals in May 2020				
08 May 2020	Cheque issued (No. MB 0421)		700	
15 May 2020	Cheque issued (No. MB 0422)	(3)	<u>100</u>	<u>800</u>
31 May 2020	Balance in Bank A/C			<u>3,040</u>

Bank Statement (issued by the bank) for May 2020:

		Note	RM Debit (Dr)	RM Credit (Cr)	RM Balance
01 May 2020	Balance				1,000Cr
05 May 2020	Cash deposit			500	1,500
16 May 2020	Cheque (No. MB 0421)		700		800
19 May 2020	Bank charges		50		750
21 May 2020	Cash deposit	(1)		580	1,330
22 May 2020	Direct transfer	(4)		300	1,630
24 May 2020	Cheque (CB 06921)	(5)	200		1,430
26 May 2020	Cheque (No. HB 9856)	(2)		980	2,410
31 May 2020	Balance				2,410Cr

The balance of RM1,000 as at 01 May 2020 is correctly shown in both the "Cash in Bank" record and the Bank Statement. However, as at 31 May 2020, the "Cash in Bank" record shows a balance of RM3,040 while the Bank Statements shows a balance of RM2,410.

Note 1: Cash deposit of RM850 was wrongly credited as RM580 in the Bank Statement.

Note 2: Cheque (No. 9856) is actually for the amount of RM980 but was wrongly recorded as RM890 in the "Cash in Bank" record.

Note 3: Cheque issued (No. MB 0422) has not been presented for payment.

Note 4: The RM300 was a direct transfer to bank by a customer.

Note 5: Cheque (CB 06921) for RM200 from a customer was deposited in April 2020 but was dishonoured by the payer's bank.

Required:

(i) Update the “Cash in Bank” record to determine the correct balance as at 31 May 2020.

(5.5 marks)

(ii) Prepare a Bank Reconciliation Statement for May 2020.

(4.5 marks)

(b) Sawit Utama Sdn Bhd (SUSB) operates a palm oil mill in Johor. The following are the particulars pertaining to three of SUSB’s non-current assets that were acquired, used and / or disposed:

Type of non-current asset	Motor Vehicle	Office Equipment	Machine
Cost of machine; fully paid in cash	RM160,000	RM50,000	RM180,000
Scrap value	RM50,625	RM10,000	RM40,000
Useful life	4 years	5 years	8 years
Method of depreciation	Reducing balance (25%)	Straight line	Straight line
Date of purchase	March 2017	August 2017	May 2018
Date of disposal	April 2019	July 2019	Still in use
Disposal price: full payment in cash	RM100,000	RM30,000	Still in use

Full year depreciation was charged in the year of purchaser, while no depreciation was charged in the year of disposal. SUSB’s accounting year end is 31 December.

Required:

For the accounting years ended on 31 December 2017, 2018 and 2019, record the relevant entries show the following accounts “T” accounts:

- (i) Motor Vehicle Account
- (ii) Office Equipment Account
- (iii) Machine Account
- (iv) Accumulated Depreciation Account
- (v) Disposal of PPE Account

(15 marks)

[Total: 25 marks]

Question 3

- (a) Suria Sdn Bhd (SSB) and Muda Sdn Bhd (MSB) are suppliers of construction materials, both operating within the same vicinity in Subang Jaya. The accounting year end of both companies is 31 December.

Below are the respective summarized Statement of Profit or Loss and Statement of Financial Position of Suria Sdn Bhd and Muda Sdn Bhd:

Statement of Profit or Loss for the year ended 31 December 2019

		Suria Sdn Bhd	Muda Sdn Bhd
		RM '000	RM '000
	Sales	4,000	4,500
Less:	Cost of goods sold	<u>2,900</u>	<u>3,600</u>
	Gross Profit	1,100	900
Less:	Operating expenses	789	550
	Profit before interest & tax	311	350
Less:	Interest expense	30	10
	Profit for the year	<u>281</u>	<u>340</u>

Statement of Financial Position as at 31 December 2019

	Suria Sdn Bhd		Muda Sdn Bhd	
	RM '000	RM '000	RM '000	RM '000
Non-Current Assets		2,200		2,000
Current Assets				
Cash	200		350	
Accounts Receivable	400		850	
Inventory	<u>900</u>	<u>1,500</u>	<u>400</u>	<u>1,600</u>
Total Assets		<u>3,700</u>		<u>3,600</u>
Current Liabilities				
Accounts Payable		835		890
Non-current Liabilities				
10% Bank Loan		300		100
Equity				
Ordinary Share Capital	2,000		2,000	
Retained Earnings	<u>565</u>	<u>2,565</u>	<u>610</u>	<u>2,610</u>
		<u>3,700</u>		<u>3,600</u>

Other information:

As at 1 January 2019, inventory of Suria Sdn Bhd was RM800,000, while that of Muda Sdn Bhd was RM350,000.

Required:

(i) Calculate the following ratios for Suria Sdn Bhd and Muda Sdn Bhd (appropriate formulae and proper working must be shown):

- a. Current Ratio (times)
- b. Quick Ratio (times)
- c. Inventory Turnover (times)
- d. Gross Profit Margin (%)
- e. Net Profit Margin (%)

(5 marks)

(ii) Based on the ratios computed in (i) above and the information in the financial statements, discuss the comparative significance and implication of Suria Sdn Bhd and Muda Sdn Bhd's liquidity and performance.

(10 marks)

(b) Tiger Sdn Bhd (TSB) is in the business of manufacturing and selling ceramic tiles and sanitaryware. Below are some of the balances extracted from the company's trial balance as at 31 December 2019:

	RM
Inventories (as at 31 December 2019)	
- Raw materials (at cost)	12,000,000
- Work in progress (at cost)	2,800,000
- Finished goods	10,800,000
Purchases of raw materials	20,000,000
Factory wages	8,000,000
Overhead Expenses:	
Electricity	1,980,000
Insurance premium	247,500
Quit rent & assessment	20,000
Maintenance	588,000
Depreciation: Plant, Property & Equipment	500,000

For costing purposes, the basis adopted for apportionment of overhead expenses to (i) manufacturing and (ii) administrative & selling cost centres is as follows:

Expenses	Basis for apportionment	Manufacturing	Administrative & Selling	Total
Electricity	Kilowatt Hours	50,000 kilowatt hours	10,000 kilowatt hours	60,000 kilowatt hours
Insurance premium	Carrying value of PPE	RM3,000,000	RM300,000	RM3,300,000
Quit rent & assessment	Floor space	70,000 square feet	10,000 square feet	80,000 square feet
Maintenance	Maintenance Hours	12,000 hours	2,000 hours	14,000 hours
Depreciation	Cost of PPE	RM7,000,000	RM1,000,000	RM8,000,000

Other information:

1. Inventories as at 1 January 2019:

	RM
Raw materials (at cost)	10,000,000
Work in progress (at cost)	3,000,000
Finished goods	8,000,000

2. Cost of goods manufactured to be transferred to income statement at cost of manufacturing plus 10%.

Required:

Prepare the Manufacturing Account (in a vertical format) for Tiger Sdn Bhd for the year ended 31 December 2019, clearly showing the (i) Prime Cost, (ii) Cost of Production and (iii) Factory Profit.

(10 marks)

[Total: 25 marks]

Question 4

Given below are the financial statements of Divoc Sdn Bhd.

Statement of profit or loss for the year ended 31 December 2019

	RM'000
Turnover	1,607
Cost of sales	(900)
Gross profit	707
Operating expenses	(458)
Profit before taxation	249
Taxation	(99)
Profit for the year	150

Statement of financial position as at 31 December

	2019	2018
	RM'000	RM'000
Assets		
Property, plant, and equipment (carrying amount)	2,200	1,820
Inventory	450	650
Trade receivables	250	210
Cash	40	82
	2,940	2,762
Equity and liabilities		
Share capital	1,500	810
Retained profit	490	651
10% debentures	400	475
Trade payables	420	556
Tax payable	80	200
Dividend payable	50	70
	2,940	2,762

Additional information:

1. Included in the operating expenses for the year ended 31 December 2019 are:

	RM'000
Depreciation on property, plant and equipment	189
Loss on disposal of plant	30
Interest expense	40

2. A plant costing RM400,000 were sold for cash. Accumulated depreciation of this plant amounted to RM160,000. Acquisition of new property, plant and equipment during the year was paid by cash.
3. RM75,000 of the 10% debentures were redeemed on 1 January 2019.
4. The increase in the issued share capital was due to the new issue of shares, for cash.

Required:

- (i) **Prepare a Statement of Cash Flows of Divoc Sdn Bhd for the year ended 31 December 2019, using the direct method. Show all workings.**
(11 marks)
- (ii) **Prepare a Statement reconciling the profit before tax to the cash flow generated from operation activities.**
(5 marks)
- (iii) **Based on the Statement of Cash Flows prepared, comment on the cash flows management on investing and financing activities.**
(4 marks)

[Total: 20 marks]

(END OF QUESTION PAPER)