



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

PROFESSIONAL EXAMINATIONS

INTERMEDIATE LEVEL

BUSINESS TAXATION

JUNE 2017

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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 **FIVE** questions.
3. Answer **ALL** questions.
4. The Income Tax Act 1967 (as amended) is referred to as ITA.
5. Each answer should begin on a separate answer booklet.
6. All workings **MUST** be shown as marks will be awarded.
7. Answers should be written in either black or blue ink.
8. No question papers or answer booklets are to be removed from the examination hall.

**DO NOT TURN OVER THIS PAGE UNTIL INSTRUCTED BY THE INVIGILATOR**

## Question 1

Rheena Hair Products Sdn Bhd (RHP) is a company incorporated and tax resident in Malaysia which manufactures and exports hair care products. The company is 100% Malaysian owned and is the registered proprietor of the brand 'Rheena Hair Products'. It has a paid-up share capital of RM2.4 million as at 1 January 2016.

The income statement of the company for the year ended 31 December 2016 is as follows:

	Note	RM	RM
Revenue			9,416,700
Less: Cost of sales	1		<u>(6,212,450)</u>
Gross profit			3,204,250
Add: <u>Other income</u>			
Interest income	2	21,210	
Compensation	3	<u>85,000</u>	
			<u>106,210</u>
Less: <b>Expenses</b>			3,310,460
Provision for doubtful debts	4	20,800	
Depreciation of property, plant and equipment		138,460	
Donations	5	20,000	
Training expenses	6	44,000	
Entertainment	7	25,670	
Advertisement and promotion	8	112,300	
Professional fees	9	92,120	
Salaries and wages	10	678,210	
Travelling expenses	11	44,300	
Repairs and maintenance	12	110,000	
Research and development	13	72,150	
Loss on foreign exchange	14	12,240	
Defalcation	15	<u>172,000</u>	
			<u>(1,542,250)</u>
Profit before taxation			<u>1,768,210</u>

### Notes:

1 Cost of sales include:

- i. Insurance premium of RM7,000 was incurred on exports of hair products paid to an insurance company in Singapore.
- ii. Provision for obsolete stock :

Balance b/f	240,000
Provision for the year	110,000
Amount incurred	<u>(56,000)</u>
Balance c/f	<u>294,000</u>

- iii. The company paid RM76,000 in obtaining certification for recognized quality systems and standards

- 2 Interest Income:  
Interest income received from short term placement of excess funds in Maybank.
- 3 Compensation:  
Compensation received from one of the company's suppliers for delivery of substandard products which resulted in delays in production.

- 4 Provision for doubtful debts:

	General	Specific	Total
	RM	RM	RM
Balance b/f	65,000	45,000	110,000
Add: Provision for the year	25,000	22,100	47,100
Less: Provision written off	(14,600)	(11,700)	(26,300)
Balance c/f	75,400	55,400	130,800

- 5 Donations:

	RM
Cash donation to old folk's home	10,000
Cash donation to Red Crescent (approved institution)	10,000
	<u>20,000</u>

- 6 Training expenses:

	RM
The company sent employees to participate in an approved training programme to improve the quality of its product	40,000
The employees participated in a workshop for Goods and Services Tax	4,000
	<u>44,000</u>

- 7 Entertainment expenses :

	RM
Disbursement of entertainment expenses of marketing team	12,000
Hampers to existing customers during festival seasons	1,100
Staff dinner for Chinese New Year	8,750
Promotional gift samples of company products	<u>3,820</u>
	<u>25,670</u>

- 8 Advertisement and promotion expenses include:

	RM
Advertising the company brand name in Singapore media	72,000
Participating in approved international trade fair	36,300
Free samples to prospective customers in Singapore	4,000
	<u>112,300</u>

- 9 Professional fees comprises:

	RM
Feasibility study on expanding to Singapore	40,820
Consultancy fees on tax matters	17,200
Advise on a legal action against supplier regarding wrong raw material supplied	24,100
Audit fees	<u>10,000</u>
	<u>92,120</u>

10 Salaries and wages include:

	<b>RM</b>
Scholarships to children of employees earning less than RM3,000 following full-time courses in Malaysian public universities.*	33,400
Family day trip for its employees to Genting Highlands:	
Travelling costs	12,000
Meals and accommodation	42,100
Remuneration of disabled receptionist	18,000

\*The students fulfilled criteria under Income Tax (Deduction for Sponsorship of Scholarship to Students of Higher Educational Institution) Rules 2012.

11 Travelling expenses:

	<b>RM</b>
Local travelling expenses claimed by marketing staff	15,900
Business trip to China	14,000
Participated in an approved international trade fair. Total six days accommodation and sustenance for participating staff	14,400
	<u>44,300</u>

12 Repairs and maintenance expenses:

	<b>RM</b>
Repairs and maintenance for plant, machinery and vehicles	22,000
Building a higher wall around the factory area	62,600
Provision for the extension of staff canteen	25,400
	<u>110,000</u>

13 Research and Development:

	<b>RM</b>
Routine testing and quality control	22,150
Research expenses for an approved project	50,000
	<u>72,150</u>

14 Loss on foreign exchange:

	<b>RM</b>
Unrealised loss from the purchase of machinery from Germany	6,140
Realised loss from trade debtors	6,100
	<u>12,240</u>

15 Defalcation:

A director of the company falsified accounts and absconded with RM172,000. The company decided not to press charges as he was related to the managing director.

16 Other information:

- i. The company has unabsorbed capital allowances and unabsorbed adjusted loss brought forward from the YA2015 of RM112,000 and RM67,400 respectively. Capital allowances and industrial building allowances for Y/A 2016 amounted to RM118,000 and RM72,000 respectively.
- ii. The company is not a company that falls within Para 2B Part 1 Schedule 1

**Required:**

**Compute the chargeable income and income tax payable by RHP Sdn Bhd for the year of assessment 2016.**

*Note: Where no adjustment is required, indicate 'Nil' in the appropriate column.*

**[Total: 25 marks]**

**Question 2**

- (a) Daily Fresh Sdn Bhd (Daily Fresh) operates an agriculture business producing vegetables and fruits. The following expenses were incurred by Daily Fresh in the basis period for the year of assessment 2016:-

<b>Expenditure</b>	<b>RM</b>
Land for farming	200,000
Clearing and preparation of land to build a farm	110,000
Construction of roads and bridge to access the farm	80,000
Construction of living quarters for farm's employees	150,000
Machine to harvest crops	300,000
Planting of crops	50,000
Construction of an estate office for the farm	60,000
Re-planting of crops	40,000

**Required:**

**Identify the expenditure which qualifies and does not qualify for agriculture allowance. Thereafter, compute the agriculture allowance for Daily Fresh Sdn Bhd for the year of assessment 2016.**

(9 marks)

- (b) Techno Sdn Bhd (TSB) was incorporated on 1 January 2012 and closes its accounts on 31 December every year. For the purpose of its business, TSB acquired the following assets which were subsequently disposed of:-

- i. **Machinery** (general plant and machinery)

On 1 February 2012, TSB acquired a machine costing RM120,000 for the purpose of its business. In March 2014, the machine was sold to Maju Sdn Bhd (MSB), a wholly owned subsidiary of TSB for RM100,000 which also closes its accounts on 31 December. The machine was subsequently sold by MSB to an unrelated third party in June 2016 for RM25,000.

- ii. **Factory**

TSB constructed a factory building which was completed and put into use in year 2016 and incurred the following expenses:-

<b>Expenditure</b>	<b>RM</b>
Cost of land	500,000
Construction cost of the factory building	2,000,000
Plumbing, drainage and electric installations	80,000
Architect's fee	30,000
Payment to local authority for approval of plan	5,000

The total floor area of the factory building is 100,000 square feet of which 15,000 square feet is used as office and showroom.

**Required:**

**Compute the capital allowances, including industrial building allowances and balancing charge or balancing allowance (if any) for the above assets for the relevant years of assessment up to year of assessment 2016.**

(11 marks)

**[Total: 20 marks]**

**Question 3**

- (a) **What is the tax treatment of profits paid, distributed or credited to the partners of a Limited Liability Partnership formed under the Limited Liability Partnerships Act 2012?** (3 marks)
- (b) Rose and Rita are both florist commenced a business partnership on 1.1.2011 and accounts were prepared to 31 December annually. The partnership agreement provided for the following:

Interest on capital	10% per annum for each partner
Rose's capital contribution	RM100,000
Rita's capital contribution	RM150,000
Salary:	
Rose	RM1,500 per month
Rita	RM3,000 per month
Share of divisible income/(loss) :	
Rose	1/3
Rita	2/3

On 30.6.2016, Rose left the partnership and withdrew her accumulated capital and profits up to that date. On 1.7.2016, Remy joined the partnership and the new partnership agreement provided the following:

Interest on capital	10% per annum for each partner
Rita's capital contribution	RM150,000
Remy's capital contribution	RM150,000
Salary:	
Rita	RM3,000 per month
Remy	RM3,000 per month
Share of divisible income/(loss) :	
Rita	1/2
Remy	1/2

The partnership's income statement for the year ended 31.12.2016 was as follows:

	<b>RM</b>
Sales Revenue	10,250,000
Less : Cost of Sales	<u>(9,100,000)</u>
Gross Profit	1,150,000
Add: Payment for occasional television appearances	<u>330,000</u>
	1,480,000
Less: Expenses	<u>(1,150,000)</u>
Net profit for the year	<u>330,000</u>

Included in the expenses were:

	RM
Partner's salary	63,000
Partner's interest on capital	27,500
Depreciation on fixed asset	25,800

Capital allowances for year of assessment 2016 amounted to RM40,400.

**Required:**

- (i) **Compute the provisional adjusted income and divisible income of the partnership.**  
(5 marks)
- (ii) **Calculate the statutory income of each partner from the partnership for year of assessment 2016.**  
(10 marks)

**[Total: 18 marks]**

#### Question 4

Bella Sdn Bhd, a telecommunication services provider normally closes its accounts on 31 March every year. It changed its accounting period to 31 December and prepared the following sets of accounts:

Accounting period	Adjusted Income/(Loss) RM'000
1 April 2011 to 31 March 2012 (12 months)	13,500
1 April 2012 to 31 December 2012 (9 months)	2,900
1 January 2013 to 31 December 2013 (12 months)	15,000

The shareholders of Bella Sdn Bhd commenced voluntary liquidation after a special resolution was made to liquidate the company. The company was liquidated on 15 July 2015 by the Notice of Resolution and a liquidator was appointed on the same date. Following the voluntary liquidation, the company's accounts which normally closed on 31 December every year, closed its accounts as follows:

Accounting period	Adjusted Income/(Loss) RM'000
1 January 2014 to 31 December 2014 (12 months)	(24,000)
1 January 2015 to 15 July 2015 (6 months 15 days)	(12,900)
16 July 2015 to 15 January 2016 (6 months)	(15,300)
16 January 2015 to 15 July 2016 (6 months)	(14,400)

**Required:**

- (i) **Determine the basis periods and the adjusted income for the years of assessment 2012 until 2016 in respect of the above business.**  
(13 marks)
- (ii) **Explain what is meant by "failure year" and state which years are the failure years in the above scenario.**  
(4 marks)

**[Total: 17 marks]**

### Question 5

Capricorn Sdn Bhd has two businesses and closes its accounts on 31 December. Its first business involved pineapple cultivation and produced the following results for the relevant years.

<b>Pineapple cultivation business</b>	<b>Year ended 31 Dec 2015 RM</b>	<b>Year ended 31 Dec 2016 RM</b>
Adjusted loss	15,000	12,000
Balancing charge	8,000	-
Current year capital allowances	7,000	1,000

The second business of Capricorn Sdn Bhd involved manufacturing canned pineapples. The results of its operations for the relevant years are as follows:

<b>Pineapple canning business</b>	<b>Year ended 31 Dec 2015 RM</b>	<b>Year ended 31 Dec 2016 RM</b>
Turnover	40,000	105,000
Expenditures	45,000	55,000

The above expenditures included depreciation charge of RM3,500 and a cash donation to an approved institution of RM1,500 for year ended 31 December 2015.

The expenditures for year ended 31 December 2016 included depreciation charge of RM5,000 and donation of RM 10,000 of which half was contributed to the state government whilst the rest was to an approved institution.

The capital allowances claimed for years of assessment 2015 and 2016 were RM7,000 and RM3,000 respectively.

For the year of assessment 2015 there was a capital allowances brought forward of RM1,500 and losses brought forward of RM2,400 from previous year.

Other tax related information was as follows:

	<b>Year ended 31 Dec 2015</b>	<b>Year ended 31 Dec 2016</b>
Rental income	8,650	8,400
Interest income	4,280	5,570
Dividend	-	3,400

The following expenses were incurred by Capricorn Sdn Bhd but **NOT** reflected in the income statement for year ended 31 December 2016.

1. Gift of a dialysis machine costing RM30,000 to a health care centre.
2. Zakat perniagaan of RM3,500.
3. Painting worth RM6,540 donated to the Selangor State Art Gallery.  
Contributions of RM2,450 and RM3,240 to a sports activity and a project of national interest (both approved by the Minister) respectively.

**Required:**

**Calculate the chargeable income for Capricorn Sdn Bhd for the years of assessment 2015 and 2016 indicating 'Nil' for items mentioned above but which are not taxable or deductible.**

[Total: 20 marks]

(END OF QUESTION PAPER)