



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

PROFESSIONAL EXAMINATIONS

INTERMEDIATE LEVEL

BUSINESS TAXATION

DECEMBER 2015

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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

Cossed Beauty Sdn Bhd (CBSB) is a Malaysian resident company. As at 1 October 2014, it had a paid up capital of RM5 million and closes the accounts to 30 September each year. The company is a sole distributor of ladies cosmetic products manufactured by a company in Thailand.

The trading results for the year ended 30 September 2015 is as follows:

		Note	RM'000	RM'000
	Sales			112,800
<i>Less:</i>	Cost of sales	1		<u>(36,450)</u>
	Gross profit			76,350
<i>Add:</i>	Other income	2		
	Dividend		78	
	Interest		48	
	Rent		260	
	Insurance recovery		190	
	Gain on disposal of asset		<u>32</u>	<u>608</u>
				76,958
<i>Less:</i>				
	Salaries and wages	3	1,360	
	Employees Provident Fund	4	295	
	Interest	5	356	
	Entertainment	6	334	
	Depreciation		987	
	Repair and maintenance	7	264	
	Bad debts	8	398	
	Motor vehicle expenses	9	546	
	Advertisement	10	426	
	Professional fees	11	67	
	Miscellaneous expenses	12	342	
	Insurance	13	115	
	Foreign exchange loss	14	20	
	Donation	15	<u>75</u>	<u>(5,585)</u>
	Net profit before taxation			<u><u>71,373</u></u>

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## **Notes:**

### **1. Cost of sales**

In December 2014, the company's warehouse was flooded owing to heavy rain and bad drainage. Cosmetic products worth RM68,000 stored in the warehouse were destroyed. The products were insured and the loss was recovered from the insurance company. (Note 2)

### **2. Other incomes:**

i) Dividend of RM78,000 was received from investment in a company located in Chiang Rai, Thailand. The dividend was remitted to Malaysia in November 2014.

#### **ii) Interest**

Interest of RM48,000 was received from fixed deposits placed with a bank in Thailand as security for supply of cosmetic products by the Thailand Company. The interest was remitted to Malaysia on 2 February 2015.

#### **iii) Rent**

Rental was from a three-storey building that the company purchased with a loan from a bank, in 2012. (Note 5) The company uses the ground floor and the first floor for its distribution activities. The third floor was rented out. The total rent received during the year was RM260,000 which include a refundable security deposit of RM20,000.

#### **iv) Insurance recovery**

a) Insurance claim received in respect of the goods destroyed during the flood in its warehouse (see Note 1) amounted RM50,000 in settlement.

b) During the year one of the directors for whom a key-man term life policy was taken several years ago died in a motor accident while on a business trip and the company recovered a sum of RM140,000 from the insurance company.

#### **v) Gain on disposal of asset**

In June 2015, the company had disposed a van bought in October 2011 at a cost RM150,000 that was used for transporting cosmetic products for RM32,000

### **3. Salaries and wages:**

Salaries and wages include an amount of RM118,000 paid to two employees who are certified by the appropriate authorities as disabled

4. **Employees Provident Fund.**

Included in the amount paid for the year is contributions totalling RM13,600 being the employer's contribution for August 2014 which was not remitted to the agency because of a clerical error. The sum was however remitted to the Employees Provident Fund in November 2014.

5 **Interest**

The interest on the loan for the three-storey building for the year 2015 was RM36,000.

The balance was with regard to the bank loan made for the purchase of cosmetic products from Thailand.

6 **Entertainment**

The entertainment expenditure wholly relates to sales arising from the business, and includes the following related expenditure:

- i) RM130,000 on the company's annual dinner for staff
- ii) RM126,000 for the disbursement of the promotion team's entertainment expenses
- iii) RM78,000 on the company's family day on 3 December 2014 on fare (RM38,000), food, drinks and accommodation (RM40,000) for the staff and their immediate family members in Langkawi island.

7 **Repair and maintenance**

Repair and maintenance include a sum of RM26,000 spent on renovating the company's office so as to provide better facilities for two disabled employees to work in comfort. The other expenses relate to maintenance of the building and cooling facilities.

8. **Bad debts are as follows:**

	<b>RM</b>
i) Bad debts written off	213,600
ii) Provision for bad debts- specific	56,400
iii) Provision for bad debts – general	158,000
iv) Bad debts recovered – trade debts	(30,000)

Of the bad debts written off during the year, RM43,000 was related to an advance made to a contractor for some renovation work on the showroom. However, the contractor's business failed and the amount was written of accordingly.

9. **Motor vehicle expenses include:**

- i) The company has a lease arrangement with a local motor company for three vehicles. The trailer is used for the transport of goods to regional retailers. The cars are used by two of the company's marketing directors.

The lease details are as follows:

Vehicle type	Original cost of new vehicle RM'000	Payments up to year ended 30 Sept. 2014 RM'000	Payments for the year ended 30 Sept. 2015 RM'000
Trailer	435	56	16
Motorcar 1	145	45	12
Motorcar 2	390	55	27
<b>Total</b>		<b>155</b>	<b>55</b>

- ii) RM38,000 was paid as fines and compounds for traffic offences. The company treats these costs as incidental to the activity of transporting goods by road.
- iii) The balance of the costs refers to repairs, maintenance and upkeep of the company's vehicles used for the purposes of the business.

10. **Advertisement**

Advertisement expenses include:	RM
i) Advertising the company's products in local electronic media	83,700
ii) Cost of product sample given to visitors at the trade fair in Singapore (approved)	23,000
iii) Expenses of advertising and maintaining sales office in Dubai	168,000

11 **Professional fees comprise:**

	RM
i) Legal fees for renewal of the contract of senior salesmen	15,000
ii) Cost of legal action taken to recover debts on trading account	4,300
iii) Audit fees	34,700
iv) Taxation and secretarial fees	13,000
	<b>67,000</b>

Taxation fee was not for advisory purposes.

12. **Miscellaneous expense include:**

Training expenses amounting RM24,000 under the 1Malaysia Training Scheme Programme for 5 unemployed graduates which was approved in November 2014.

13. **Insurance includes:**

- i) During the year, the company purchased a key-man endowment policy on the life of the marketing director and paid a premium of RM5,000 for the first year.
- ii) The company also purchased another key-man term life policy on the life of the managing director for an annual premium of RM6,000.
- iii) Insurance was paid to an insurance company incorporated in Malaysia amounting RM69,000 on cosmetic products imported from Thailand.

14. **Foreign exchange loss**

Foreign exchange loss comprises the following:

	<b>RM</b>
Unrealized loss – import of stocks from Thailand	25,000
Realized loss –import of stocks from Thailand	15,000
Unrealised gain on conversion of debtors accounts	<u>(20,000)</u>
	<u>20,000</u>

15. **Donation comprises:**

	<b>RM</b>
i) Cash donation to flood victims in December 2014	63,000
ii) Donation of school clothing to an orphanage - in kind	<u>12,000</u>
	<u>75,000</u>

**Other information:**

For the year of assessment 2015, the company is entitled to a capital allowance of RM863,000. During the year, the company also installed billboards at shopping complexes in Ipoh and Johor Bharu amounting RM190,000.

**Required:**

**Based on the information given, compute the chargeable income and tax payable by CBSB for the year of assessment 2015.**

**Your computation should start with the profit before taxation figure and follow the description used in the profit and loss account and where applicable the description used in the notes to the accounts. In making your tax adjustments to the entries, you should indicate 'Nil' where no adjustments are made or are not required. You do not need to explain the adjustments that you are making.**

**[Total: 25 marks]**

## Question 2

- (a) Nusantara Sdn Bhd (NSB) is a manufacturing company, located in Puchong, Selangor. NSB year end is 30 September annually. In 2015 NSB constructed the following business premises:

A new factory complex incorporating a display centre and cafe, incurring costs as follows:

	<b>RM</b>
Land	4,000,000
Legal fees and stamp duty in the acquisition of the land	20,000
Architect's fee	30,000
Construction costs:	
Factory	25,000,000
Office	2,500,000
Display centre and cafe	800,000
Child care centre	350,000

**Required:**

**Compute, giving brief explanations, the qualifying building expenditure and the industrial building allowance on the factory complex.**

(10 marks)

- (b) Mega Sdn Bhd (MSB) was incorporated on 1 January 2007 and closes its accounts on 31 December every year. The following assets were acquired and disposed by MSB:

(i) **Machinery**

On 23 October 2015, a machine costing RM80,000 was brought into Malaysia for business use. It was originally used for business in China. The net book value and the market value of the machine were RM64,500 and RM63,000 respectively. MSB incurred RM10,000 for installation of the machinery.

(ii) **Delivery Van**

On 25 April 2012, a second hand delivery van costing RM95,000 was bought on cash basis. The van was sold in July 2015 for RM105,000.

(iii) **BMW Car**

A BMW car was acquired under hire purchase in 2015 for the use by the Finance Director in 2015 at a cost of RM280,000.

The details of the hire purchase are:

Deposit : RM40,000 paid on 20 August 2015  
No. of instalments : 60 monthly instalments beginning September 2015

**Required:**

**Compute the capital allowances, balancing charges or balancing allowances (if any) for the above assets for year of assessment 2015.**

(10 marks)

**[Total: 20 marks]**

### Question 3

- (a) TG Sdn Bhd (TGSB) is a manufacturer of energy saving equipment and the factory is located Sungai Petani. In early 2015, a business contract was made with a Korean company to supply plant and machinery, set up the production line, and train 40 local personnel to operate the machinery in the factory. The Korean company established a temporary office for three months in Sungai Petani to facilitate and carry out its operations.

The following payments were made by TGSB to the Korean company during the year ended 31 October 2015:

Particulars	RM (million)
Supply of plant and machinery	152
Installation of plant and machinery	70
Training of local personnel	10
Hotel charges in Malaysia for the Korean personnel	0.5
	<u>232.5</u>

**Required:**

**Determine the withholding tax, if any, that would be payable by TGSB for the relevant payments for year of assessment 2015, and state the reasons for your answer.**

(8 marks)

- (b) Johan Titbits Sdn Bhd (JTBSB) is a Malaysian resident company. JTBSB has a branch in Sydney processing food under a royalty agreement with Cheers Foods Ltd, a United States based company. The branch in Sydney is required to pay Cheers Foods Ltd a royalty of 10% on its net annual sales.

**Required:**

**Ascertain whether the royalty received by Cheers Foods Ltd is derived from Malaysia.**

(3 marks)

- (c) An American comedian Ron Wilson came to Malaysia on the invitation of a local company to give a performance at Penang Sport Club. He was paid a sum of RM300,000 for the one night show.

Ron Wilson spent one week in Malaysia before returning home to the United States.

**Required:**

**What are the income tax implications for the fee of RM300,000 received by Ron Wilson under the Malaysian Income Tax Act 1967?**

(6 marks)

- (d) **What are the consequence of a taxpayer failing to withhold taxes from a payment which is subject to withholding tax?**

(3 marks)

**[Total: 20 marks]**

#### Question 4

- (a) (i) How are the profits paid, distributed or credited to the partners of a Limited Liability Partnership treated under the Limited Liability Partnership Act 2012?  
(3 marks)
- (ii) Yatina and Yulia are partners in the partnership business selling women accessories online. The partnership accounts for the year ended 31 December 2015 are expected as follows:

	Notes	RM
Sales		2,977,000
Less: Cost of sales		<u>(2,155,000)</u>
Gross profit		822,000
Less: Partners' salary	(a)	(168,000)
Interest on capital	(b)	(255,000)
Other tax deductible expenses		(219,000)
Depreciation		<u>(30,000)</u>
Net profit for the year		150,000
Add: Rental income		<u>120,000</u>
		270,000
Less: Approved donation		<u>(15,000)</u>
Net profit for the year		<u>255,000</u>

#### Notes:

The partnership agreement provides the following:

#### i. Salaries:

Yatina	RM8,000 per month
Yulia	RM6,000 per month

#### ii. Interest on capital

Interest on capital was calculated at 10% per annum. The respective capital contributions of the partners is as follows:

	RM
Yatina (no change during the year)	2,000,000
Yulia	RM
As at 1 January 2015	300,000
Additional capital on 1 August 2015	<u>600,000</u>
As at 31 December 2015	<u>900,000</u>

#### iii. Partnership profit and loss are shared as follows:

Yatina	50%
Yulia	50%

#### iv. Capital allowances for the year of assessment 2015 were RM90,000.

- v. **Unabsorbed business losses available to the individual partner are as follows:**

	<b>RM</b>
Yatina	151,000
Yulia	62,000

**Required:**

- a. **Compute the partnership provisional adjusted income and divisible income of the partnership.**  
(7 marks)
- b. **Compute the total income of each partner for the year of assessment 2015.**  
(7 marks)

- (b) Qalaqisya Sdn Bhd commenced its boutique operations on 1 April 2013 and prepared both its first and subsequent sets of accounts to 31 March as follows:

<b>Accounting period</b>	<b>Adjusted income/(loss) RM</b>
1 April 2013 to 31 March 2014	111,300
1 April 2014 to 31 March 2015	(63,810)

On 1 January 2014, the company commenced a health spa business. The company signed a sales and purchase agreement with MyLana Sdn Bhd on 17 May 2014 to acquire a shop lot to operate its spa business for a price of RM888,000.

**Required:**

- (i) **Determine the basis period and adjusted income or loss in respect of the boutique operations of Qalaqisha Sdn Bhd for the relevant years of assessment.**  
(2 marks)
- (ii) **State, with reasons, the basis period in respect of the spa business for its first year of assessment.**  
(1 mark)

**[Total: 20 marks]**

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### Question 5

- (a) Safety Sdn Bhd experienced a tragic financial year ended 30 September 2015. The company suffered numerous losses during the year and has consulted you as their tax consultant as to whether these losses will rank for a deduction in ascertaining their adjusted income.
- (i) The cashier of the company, who was authorised to withdraw the moneys from the company's account in the bank, defalcated various amounts of money. He absconded and cannot be traced
  - (ii) After the death of the late managing director of the company who controlled the financial affairs of the business, an investigation revealed that some RM14,000 that was due from his estate to the company had been channelled to many private transactions through the company's books. However, the company was unable to recover the amounts and they were written off in the accounts.
  - (iii) The company has a policy of depositing cash receipt from customers deposits on a daily basis. On 15 May 2015, the company's van carrying cash amounting to RM18,000 was robbed while on the way to the bank.
  - (iv) On 6 June 2015 the finance manager was unable to bank in the cash collection for the day and therefore brought home cash amounting to RM15,000 from his office and kept the cash in the strong room in his house. Thieves broke into his house and stole the cash.

**Required:**

**Advise Safety Sdn Bhd as to the deductibility of each of the above transactions:**

(8 marks)

- (b) Alex a freelance accountant has been in practice for almost four decades. He is 70 years old and will be retiring at the end of 2015. Grateful Sdn Bhd has been one of his clients for the last 30 years. The management Grateful Sdn Bhd has resolved to award a token sum of RM50,000 to Alex in appreciation of his years of service to the company. This payment is not contractual and all of his outstanding fees and disbursements have been settled. Alex has also indicated that he has no intention of getting involved in accounting work anymore. His current contract ends on 31 December 2015.

**Required:**

**Explain whether the RM50,000 received by Alex will be subject to income tax.**

(7 marks)

**[Total: 15 marks]**

**(END OF QUESTION PAPER)**