



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

PROFESSIONAL EXAMINATIONS

INTERMEDIATE LEVEL

FINANCIAL ACCOUNTING

JUNE 2017

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 booklet.
5. All workings **MUST** be shown as marks will be awarded.
6. Answers should be written in either black or blue ink.
7. No question paper or answer booklet is to be removed from the examination hall.

DO NOT TURN OVER THIS PAGE UNTIL INSTRUCTED BY THE INVIGILATOR

Question 1

The following trial balance relates to Scoop Bhd as at 30 June 2016

	RM'000	RM'000
Revenue		90,000
Cost of sales	35,000	
Development expenditure	3,000	
Distribution expenditure	11,000	
Administrative expenses	10,100	
Land (RM15 million) and buildings (RM50 million)	65,000	
Plant and equipment at cost	25,000	
Vehicles at cost	5,000	
Leased asset at cost	1,400	
Accumulated depreciation at 1 July 2015:		
Plant and equipment		9,375
Buildings		6,000
Vehicles		600
Leased asset		350
Finance costs	3,000	
Inventory at 30 June 2016	18,000	
Trade receivables	3,140	
Trade payables		3,000
Deferred tax liability on 1 July 2015		1,000
Cash and bank balance	9,660	
Tax paid	3,500	
Equity shares of RM1 each		50,000
3% Redeemable Preference Shares of RM1 each		20,000
Share premium		2,000
Retained profit on 1 July 2015		9,375
Finance Lease obligations on 1 July 2015		1,100
	192,800	192,800

Additional information:

- The development expenditure represented the expenditure on a new product was launched in July 2015 .The company expects the product to have a life span of 3 years before it becomes obsolete in the market.
- Depreciation on non-current assets are calculated based on the straight line method over their expected useful life as follows:

Buildings	50 years
Plant and equipment	8 years
Vehicles	5 years

It is the policy of the company to charge all depreciation and amortization of intangible assets to cost of sales.
- On 30 June 2016, the management classified one of the buildings as "held for sale" as it satisfies the criteria of MFRS 5 *Non-Current Asset Held for Sale and Discontinued Operations*. The building was acquired on 1 July 2010 at RM2,000,000. The company expects to sell the building for RM1,800,000 less brokerage commission of 3% on the selling price.

4. The leased asset in the trial balance was acquired on 1 July 2014 under a four year finance lease agreement with an implicit interest rate of 10% per annum. The asset has a useful life of 4 years and annual rentals of RM400,000 per annum, payable in advance. The fair value of the asset at the date of inception was RM1,400,000.
5. The balance on the taxation account in the trial balance represents the amount paid for the year. The tax expense for the year is estimated to be RM3,000,000 which excludes changes in its deferred tax liability. The deferred tax liability on 30 June 2016 was estimated at RM650,000.
6. Inventory on 30 June 2016 included goods costing RM750,000 which were obsolete and slow moving. These goods were eventually sold on 8 July 2016 for RM640,000.
7. The redeemable preference shares were issued on condition that it will be redeemed in 2020.
8. During the year, Scoop Bhd made a fresh issue of ordinary shares for cash of one (1) share for every five (5) shares held at a market price of RM3.50 per share. The issue was fully subscribed and all cash was received. However Scoop Bhd has not yet recorded the transaction in its books.
9. One of Scoop Bhd's major customers who owed Scoop Bhd RM350,000 was declared a bankrupt on 1 August 2016. The financial statements were approved by the board of directors on 30 September 2016.
10. Finance costs comprised of dividends paid to redeemable preference shareholders and equity shareholders.

Required:

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

- (i) **A Statement of Profit or Loss and Comprehensive Income for the year ended 30 June 2016;**
(13 marks)
- (ii) **A Statement of Changes in Equity for the year ended 30 June 2016;**
(4 marks)
- (iii) **A Statement of Financial Position as at 30 June 2016.**
(13 marks)

[Total: 30 marks]

Question 2

ABC Trader, a partnership with three partners, namely Alan, Bobby and Charlie, commenced business operation in 2013. The following are the balances extracted from ABC Trader as at 31 December 2016:

	Debit RM	Credit RM
Furniture & fixtures (at cost)	55,500	
Accumulated Depreciation: Furniture & fixtures (as at 1 January 2016)		11,100
Trade Receivables	29,000	
Inventory	42,000	
Trade Payables		23,305
Cash at bank	43,590	
Capital Accounts:		
Alan		40,000
Bobby		35,000
Charlie		30,000
Current Accounts (as at 1 January 2016):		
Alan		6,000
Bobby		5,000
Charlie		4,000
Drawing Accounts:		
Alan	5,000	
Bobby	4,000	
Rental expenses	9,600	
Salaries	38,400	
General business operating expenses	35,400	
Gross profit for the year		108,085
	<u>262,490</u>	<u>262,490</u>

Additional information:

1. Furniture & fixtures are depreciated at 10% per annum on cost.
2. RM7,200 of general business operating expenses have yet to be accrued as at 31 December 2016.
3. Included in the salaries are partners' annual salaries of RM9,000 for each partner. The remainder of the salaries are for an employee.
4. Drawings by Alan and Bobby were made on 1 April 2016 and 1 July 2016 respectively.
5. Interest will be calculated at 5% per annum on capital and 10% per annum on drawings. There is no interest on partners' current accounts.
6. Alan, Bobby and Charlie are to share profit or loss respectively in the ratio of 3:2:1.
7. Alan, is guaranteed a minimum profit of RM4,200. Any deficiency will be borne by the other partners based on their profit or loss ratios.

Required:

Prepare the following:

- (i) **Profit and Loss Account for the year ended 31 December 2016.** (8 marks)
- (ii) **Profit and Loss Appropriation Account for the year ended 31 December 2016.** (9 marks)
- (iii) **Current Account of each partner.** (8 marks)

Show all workings to support your answers.

[Total: 25 marks]

Question 3

Sino Bhd manufactures stainless steel products. Over the last few years, the company has suffered substantial losses. However, a recent market survey has indicated that in future years, the steel industries will have significant positive prospects. The board of directors of Sino Bhd feels that the company can improve its financial position by taking appropriate actions such as aggressive marketing campaign. As such, the board of directors, with the consent of various stakeholders had decided to go for an internal reconstruction of the company.

Below is Sino Bhd's statement of financial position as at 31 December 2016

	RM'000
Non current assets	
Property, plant and equipment	7,440
Investment	2,160
Intangible	768
Current assets	
Inventories	1,680
Trade receivables	1,440
	<u>13,488</u>
Equity and liabilities	
Ordinary shares at RM1 each	6,800
Share premium	1,480
Accumulated loss as at 1 January 2016	(3,152)
Non current liabilities	
10% Debentures	4,800
Current liabilities	
Trade payable	2,720
Bank overdraft	480
Interest on debentures payable	360
	<u>13,488</u>

Additional information:

1. Detail of Property, plant and equipment is as follows:

	Carrying value RM'000	Revaluation RM'000
Land	1,800	3,000
Buildings	3,750	4,900
Machinery	1,890	900

2. The inventories can only be sold at RM880,000.
3. Out of the total trade receivables, 10% is expected to be bad debts.
4. Investment can be liquidated immediately at a loss of 35%.
5. The intangible asset is considered to be worthless upon the reconstruction scheme.
6. 40% of total trade payables belongs to preferential creditors. They have requested the company to settle 50% of the debts.
7. The cost of reconstruction would be RM50,000.

In order to raise funds to pay the reconstruction cost and preferential creditors, the board of directors have decided on the following:

- a. Ordinary share capital be reduced to RM0.50 per share.
 - b. The existing ordinary shareholders were offered to subscribe to a rights issue of three (3) for every ten (10) shares held at RM 1.00 per share. All the existing shareholders subscribed to the rights issue.
8. The accumulated losses were written off.
 9. The debenture holders agreed to convert every 100 units of 10% Debenture into 80 units of ordinary shares.
 10. All accruals were settled by cash.

Required:

Taking into effect the implementation of the above scheme, prepare for Sino Bhd the followings:

- (i) **the capital reconstruction account;** (13 marks)
- (ii) **cash and bank account; and** (7 marks)
- (iii) **ordinary share capital account.** (5 marks)

[Total: 25 marks]

Question 4

Below are the extracts of the financial statements of Oldon Bhd, a retailer of telecommunication equipment.

Statements of profit or loss and other comprehensive income for the year ended 30 June

	2016		2015	
	RM'000	RM'000	RM'000	RM'000
Revenue - cash	6,800		13,000	
- credit	25,000		14,000	
		31,800		27,000
Cost of sales		(20,400)		(16,500)
Gross profit		11,400		10,500
Investment income		750		-
Operating expenses		(6,750)		(5,500)
Finance costs		(400)		(200)
Profit before tax		5,000		4,800
Income tax expense		(1,250)		(1,200)
Profit for the year		3,750		3,600
Other comprehensive income				
Gain on property revaluation		250		-
Total comprehensive income for the year		4,000		3,600

Statements of financial position as at 30 June

	2016		2015	
	RM'000	RM'000	RM'000	RM'000
Non – current assets				
Property, plant and equipment	60,500		51,000	
Investment properties	3,000	63,500	1,000	52,000
Current assets				
Inventory	3,800		1,800	
Accounts receivable	5,200		3,200	
Bank	1,400	10,400	2, 800	7,800
Total assets		73,900		59,800
Equity and Liabilities				
Equity shares of RM1 each	55,000		44,000	
Share premium	3,100		2,000	
Revaluation surplus	250		-	
Retained earnings	1,250	59,600	1,780	47,780
Non- current liabilities				
10 % loan notes	4,000		2,000	
Deferred taxation	4,800	8,800	3,800	5,800
Current liabilities				
Accounts payable	4,200		5,300	
Current tax payable	500		320	
Warranty provision	800	5,500	600	6,220
Total equity and liabilities		73,900		59,800

Statement of changes in equity of Oldon Bhd for the year ended 30 June 2016

	Equity shares	Share premium	Revaluation surplus	Retained earnings	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Balance brought forward 1 July 2015	44,000	2,000	-	1,780	47,780
Shares issued	11,000	1,100			12,100
Comprehensive income			250	3,750	4,000
Dividends paid				(4,280)	(4,280)
Balance carried forward 30 June 2016	55,000	3,100	250	1,250	59,600

Additional notes:

1. During the year the company redesigned its display areas in the major outlets. As a result of this, a total amount of assets with a carrying value of RM2,000,000 was disposed for RM800,000. The revaluation surplus represented the revaluation of property, plant and equipment. Depreciation for the property, plant and equipment amounted to RM1,800,000, which was charged to cost of sales.

2. Oldon Bhd's investment properties generated income of RM750,000. During the year, the directors revalued the investment property downwards by RM2,000,000 and the amount was included in operating expenses.

Required:

- (i) **Prepare a statement of cash flow for Oldon Bhd for the year ended 30 June 2016 in compliance with the requirement of MFRS 107 Statement of Cash Flows, using the indirect method.**
(17 marks)

- (ii) **The directors of Oldon Bhd expressed concern over the decline in the bank balance. Advise Oldon Bhd's directors as to how this situation can be addressed.**
(3 marks)

[Total: 20 marks]

(END OF QUESTION PAPER)