



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

PROFESSIONAL EXAMINATION

INTERMEDIATE LEVEL

FINANCIAL ACCOUNTING

DECEMBER 2021

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.

DO NOT TURN OVER THIS PAGE UNTIL INSTRUCTED BY THE INVIGILATOR

Question 1

The trial balance for Pfiser Bhd as at 31 March 2021 is shown below:

	Debit	Credit
	RM' 000	RM' 000
Revenue		94,000
Cost of Sales	42,200	
Inventory at 31 March 2021	9,800	
Trade receivables and trade payables	7,500	5,000
Land	2,000	
Revaluation reserve - Land		100
Factory land and buildings at cost	26,000	
Accumulated depreciation at 31 March 2021 - Factory land and buildings		6,000
Investment property (fair value at 31 March 2021)	3,550	
8% Loan notes 2024		1,000
Loan interest paid	80	
Current tax		150
Development cost	2,000	
Accumulated amortisation of development cost at 31 March 2021		280
Share Capital		14,800
6% Preference Share Capital		2,000
Retained Earnings at 31 March 2021		12,070
Preference dividend paid	80	
Bank	30,190	
Distribution cost	6,200	
Administration expenses	5,800	
	135,400	135,400

Additional Information:

- Land is measured under revaluation model as per *MFRS116 Property, Plant and Equipment*. As at 31 March 2021, the land was professionally valued at RM1.7million.
- Factory land and buildings was depreciated on a straight-line basis during its 26-year useful life until 31 March 2020. However, as of 1 April 2020, the remaining useful life of Factory land and buildings was predicted to be fifteen (15) years. Factory land and buildings depreciation is charged to the cost of sales.
- The development cost figure in the trial balance comprises the following:

	RM	
Balance at 1 April 2020	1,400,000	Note 1
Research into new product	200,000	
Development costs for new products	50,000	Note 2
Development costs for new products	350,000	Note 3

Note 1: These development costs are being amortised on a straight-line basis over ten (10) years.

Note 2: These development costs relate to the development of a new product which the company believes will be successful if there is a change in current health and safety legalisation.

Note 3: These costs relate to the development of a new product which the company is confident will be successful. It is envisaged that the sales of this new product will commence in July 2021. All research and development related costs are charged to cost of sales.

4. In March 2021, 500,000 equity shares were issued at RM2 each. All proceeds were received and correctly entered in the bank account, but the corresponding entry was credited to administration expenses. No new preference shares were issued during the year ended 31 March 2021.
5. In June 2020, the Financial Controller discovered a substantial error in the financial accounts for the year ended 31 March 2020. This miscalculation resulted from a RM5 million overstatement of closing inventory. No adjustment has been made to correct this error.
6. Pfizer Bhd estimates that an income tax provision of RM8 million is required for the year ended 31 March 2021. The current tax figure in the trial balance represents the under/over provision for the year ended 31 March 2020.
7. The loan notes were issued on 1 April 2020, Pfizer Bhd incurred issue cost of RM60,000 and these were charged to administration costs. On redemption Pfizer Bhd has to pay a large premium as the loan notes have an effective rate of interest of 10% per annum. The loan notes are accounted for under the amortised cost method.
8. Revenue includes a non-refundable deposit of RM100,000, which was received in February 2021. The deposit relates to a product which will be delivered in May 2021.
9. As at 31 March 2021, the fair value of the investment property was RM3.6 million.

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 other Comprehensive Income for the year ended 31 March 2021;** (12 marks)
- (ii) **A Statement of Changes in Equity for the year ended 31 March 2021;** (6 marks)
- (iii) **A Statement of Financial Position as at 31 March 2021.** (12 marks)

[Total: 30 marks]

Question 2

James Wu operates a small sole proprietorship business dealing in plumbing products, such as PVC water pipes, water taps and other related plumbing materials. He does not keep proper complete records of his business transactions. However, James Wu was able to furnish the following summarised particulars pertaining to his business for the year ended 31 December 2020:

Balance as at	1 January 2020	
	RM	
Inventories	18,100	
Trade payables	12,000	
Trade receivables	18,000	
Fixtures & Fittings (at cost)	36,000	
Accumulated depreciation	7,200	Note 1
Accrued rental expenses	1,000	

* Note 1: The 'Accumulated depreciation' is in relation to the Fixtures and Fittings.

In addition, James Wu also provided summarised information in relation to cash receipts and payments of his business, as follows:

	RM	
Balance of cash (1 January 2020)	22,000	
Receipts from cash sales	10,000	
Receipts from trade receivables	13,000	
Loan from bank (repayable in 3 years)	30,000	
Sale of Fixtures & Fittings	11,000	(Note 2)
Drawings	6,000	
Cash purchases	8,000	
Payments to trade payables	19,000	
Purchase of new Fixtures & Fittings	4,000	
Rental expenses	10,000	
Other business operating expenses	24,000	

* Note 2: The original cost of the Fixtures & Fittings sold was for RM15,000, of which accumulated depreciation of RM3,000 has been provided.

Additional information:

1. Based on the records of previous years, it was found and confirmed that on an average, the gross profit margin is 20%.
2. During the year ended 31 December 2020, credit sales amounted to RM40,000 while credit purchases amounted to RM20,500, and bad debts written off amounted to RM1,000.
3. Allowance for doubtful debts is to be provided at 5% of the balance of trade receivables at 31 December 2020.
4. Annual depreciation on the Fixtures & Fittings is 20% on cost based on the balance at the end of the year.

Required:

Based on the above information:

- (i) Determine the amount of capital of James Wu's business as at 1 January 2020. (3 marks)
- (ii) Prepare (in a proper format) a Statement of Profit or Loss for the year ended 31 December 2020. (10.5 marks)
- (iii) Prepare a Statement of Financial Position as at 31 December 2020. (11.5 marks)

Show all necessary workings. Marks will be awarded for all necessary and appropriate workings.

[Total: 25 marks]

Question 3

Ah Hua Electric Supplier (AHES) and Bob Li Electric Accessories (BLEA) are both in the business of selling electric products such as electric light bulbs, switches, plugs, wire, cable and other associated electric components and accessories. AHES' and BLEA's business premises are located within the same township, but about 10 kilometres apart from each other. Most of their customers are self-employed electric technicians dealing in repairs and installations of electric devices in residential premises.

Below are the respective Financial Statements of AHES and BLEA:

Income Statement for the year ended 31 December 2020

		AHES	BLEA
		RM	RM
Sales	Note 1	250,000	400,000
Cost of goods sold		<u>(150,000)</u>	<u>(320,000)</u>
Gross profit		100,000	80,000
Operating expenses		<u>(72,000)</u>	<u>(35,000)</u>
Profit before interests		28,000	45,000
Interest expense		<u>(2,400)</u>	<u>(2,000)</u>
Net profit		<u>25,600</u>	<u>43,000</u>

Statement of Financial Position as at 31 December 2020

		AHES	BLEA
		RM	RM
Current Assets			
Inventories		25,000	38,000
Trade receivables		45,000	40,000
Cash / Bank		<u>30,000</u>	<u>55,000</u>
		100,000	133,000
Current Liabilities			
Trade payables		<u>(86,000)</u>	<u>(58,000)</u>
		14,000	75,000
Non-Current Assets	Note 2	<u>116,000</u>	<u>70,000</u>
		<u>130,000</u>	<u>145,000</u>

Non-Current Liabilities			
Bank loan	Note 3	30,000	25,000
Capital		100,000	120,000
		<u>130,000</u>	<u>145,000</u>

Note 1: Of the total sales revenue, 30% of AHES' sales were from cash sales while 70% of BLEA's sales were from cash sales. The remaining sales revenue were from credit sales.

Note 2: All non-current assets are tangible assets.

Note 3: Both the bank loans carry an interest of 8% p.a.

Other information:

	AHES	BLEA
	RM	RM
Inventories (as at 1 January 2020)	22,000	40,000
Trade debtors (as at 1 January 2020)	40,000	37,000

Required:

- (i) Based on the above information, compute the following financial ratios for both Ah Hua Electric Supplier (AHES) and Bob Li Electric Accessories (BLEA)
- Current Ratio
 - Acid Test Ratio
 - Average Collection Period (days)
 - Inventory Turnover Ratio (days)
 - Gross profit margin
 - Net profit margin

Show all necessary workings, including the formulae applied.

(12 marks)

- (ii) Based on the computed ratios, discuss the comparative significant and implication of AHES' and BLEA's business operations in relation to:
- liquidity
 - efficiency
 - performance

(8 marks)

[Total: 20 marks]

Question 4

The following are the lists of the balance in the accounts of Spruce Wood Sdn Bhd as at:

	30 June 2021	30 June 2020
	RM	RM
Land and building at carrying value	1,505,000	1,250,000
Plant and machinery at carrying value	211,700	300,000
Motor vehicles at carrying value	234,500	200,000
Investments	320,000	400,000
Inventories	263,500	244,500
Trade receivables	328,000	213,500
Bank	238,500	209,500
Tax payable	15,000	10,000
Trade payables	254,250	210,000
Ordinary share capital	1,755,000	1,490,000
Retained profits as at 1 July 2020	576,950	482,500
10% Debentures	370,000	450,000
Long term loan (from Japan)	80,000	150,000
Deferred taxation	50,000	25,000

Additional information:

1. List of accounts related to cost of sales, profit and expenses for the year ended 30 June 2021 is as follows:

	RM
Cost of sales	228,000
Profit on disposal of:	
Plant and machinery	10,000
Investment	2,000
Depreciation:	
Plant and machinery	11,000
Motor vehicles	25,000
Interest expense	18,000
Loss on exchange difference on loan	5,000
Taxation expenses	165,000

2. Disposal of plant and machinery was for cash and there was no purchase of plant and machinery during the year.
3. Land and building were purchased for cash.
4. RM80,000 10% debentures were redeemed on 1 July 2020 at par.
5. The increase in the issued share capital was due to the issue of shares, for cash.
6. The long-term loan from Japan was denominated in yen.
7. Some dividends were paid.

Required:

- (i) **Compute profit before tax.** (4 marks)
- (ii) **Prepare a statement of Cash flows for Spruce Wood Sdn Bhd for the year ended 30 June 2021 in compliance with the requirement of *MFRS 107 Statement of Cash Flows*, using the indirect method.** (16 marks)
- (iii) **Briefly comment on the cash flow management of Spruce Wood Sdn Bhd.** (5 marks)

Show your workings.

[Total: 25 marks]

(END OF QUESTION PAPER)