



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

PROFESSIONAL EXAMINATIONS

INTERMEDIATE LEVEL

FINANCIAL ACCOUNTING

JUNE 2015

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 are to be removed from the examination hall.

DO NOT TURN OVER THIS PAGE UNTIL INSTRUCTED BY THE INVIGILATOR

Question 1

Semangat Bhd is a listed company in the household electrical appliances industry and the Trial Balance as follow.

Trial balance for the year ended 31 December 2014.

| | RM'000 | RM'000 |
|---|----------------|----------------|
| Revenue | | 90,000 |
| Cost of sales | 50,000 | |
| Distribution costs | 8,175 | |
| Administrative expenses | 14,000 | |
| Finance cost | 2,360 | |
| Leased property at cost | 2,800 | |
| Land (RM20 million) and building (RM80 million) | 100,000 | |
| Plant and equipment at cost | 20,000 | |
| Leased plant at cost | 25,000 | |
| Accumulated depreciation at 1 January 2014: | | |
| Leased property | | 224 |
| Plant and equipment | | 3,000 |
| Building | | 48,000 |
| Leased plant | | 5,000 |
| Inventory at 31 December 2014 | 10,000 | |
| Intangible asset | 5,000 | |
| Accounts receivable | 15,140 | |
| Accounts payable | | 4,476 |
| Finance lease obligation at 1 January 2014 | | 21,375 |
| Deferred tax liability on 1 January 2014 | | 2,000 |
| Cash and bank balance | 4,400 | |
| 5% Loan notes | | 10,000 |
| Taxation | 500 | |
| Equity shares of RM1 each on 1 January 2014 | | 50,000 |
| Share premium | | 13,000 |
| Retained profit on 1 January 2014 | | 13,800 |
| Financial assets | 3,500 | |
| | 260,875 | 260,875 |

The following information is relevant for the preparation of the financial statements:

1. Semangat acquired a plant costing RM1,000,000 four years ago, and depreciated it over five years with no residual value. The plant was well maintained and on 1 January 2014, the factory manager believed that the plant was likely to last eight years in total from the date of purchase and decided to revise the useful life of the plant to eight years.
2. Semangat bought a 25 year old leased property on 1 January 2012 at RM2,800,000. The directors decided to revalue the leased property in line with recent increases in market values. On 1 January 2014, an independent surveyor valued the leased property at RM2,700,000. It is the policy of the company to make a transfer from the revaluation reserve to retain earnings in respect of excess amortization. Ignore deferred tax on revaluation surplus.

3. The leased plant was acquired on 1 January 2013 at a rental of RM5,000,000 per annum for 6 years payable in arrears. The interest rate implicit in the lease is 5.5% per annum. The leased plant is depreciated at 20% per annum using the straight line method. The payment for the year 2014 had not been recorded in the financial statements.
4. It is the policy of the company to depreciate its other remaining non-current assets at 5% per annum on cost. All depreciation is charged to cost of sales.
5. During the year, the company made a bonus issue of one (1) share for every five (5) shares held on 1 January 2014 from its share premium account. The issue has not been recorded in the financial statements.
6. The financial assets represent investment held for trading and have a fair value of RM3,000,000 at the end of the year.
7. The estimated tax expense for the year was calculated to be RM1,250,000 including changes in its deferred tax liability. The balance of taxation in the trial balance represents the amount paid for the year. The deferred tax liability on 31 December 2014 was estimated to be RM2,200,000.
8. The intangible asset in the trial balance relates to a product brand that received bad publicity during the year resulting to a drop in revenue. An impairment review was conducted on 1 July 2014 which concluded that the brand had a value in use of RM3,000,000 with a remaining useful life of 3 years. Semangat also had received an offer to purchase the brand for RM4,000,000 less commission of 10%. It is the company's policy to amortize brand using the straight line method and to charge impairment and amortization to cost of sales.
9. Finance costs comprise of interest on the 5% loan notes and equity dividends paid during the year.
10. The company is facing a court case for wrongful dismissal of one of its employees. The company's lawyers are of the opinion that the company will lose the case and has estimated the compensation to be RM500,000 and legal costs to be RM80,000. The company has not made any provision for the probable loss from the court case.
11. The company's bank account has an overdraft facility.

Required:

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

- (a) **A statement of profit or loss and other comprehensive income for the year ended 31 December 2014.** (14 marks)
- (b) **A statement of changes in equity for the year ended 31 December 2014.** (4 marks)
- (c) **A statement of financial position as at 31 December 2014.** (12 marks)

[Total: 30 marks]

Question 2

Sakitan Sdn Bhd has been in the manufacturing business for many years. The company has been suffering substantial losses since the last four years. A scheme for internal reconstruction has been approved in the recent annual general meeting.

The Statement of Financial Position of Sakitan Sdn Bhd just before the implementation of the internal reconstruction scheme is as follows:

| Sakitan Sdn Bhd | |
|---|------------------|
| Statement of Financial Position as at 31 March 2015 | |
| | RM |
| Non-current assets | |
| Land and buildings | 840,000 |
| Plant and machinery | 490,000 |
| Patents | 168,000 |
| Current assets | |
| Inventories | 406,000 |
| Trade receivables | 266,000 |
| Total Assets | <u>2,170,000</u> |
| Equity | |
| RM1 Ordinary shares | 1,400,000 |
| Accumulated loss | (630,000) |
| Non-current liabilities | |
| 10% Loan | 630,000 |
| Current liabilities | |
| Trade payables | 441,000 |
| Bank overdraft | 266,000 |
| Loan interest payable | 63,000 |
| Total equity & liabilities | <u>2,170,000</u> |

The following are particulars in relation to the proposed scheme:

1. A factory building was sold and a buyer had paid the full purchase price of RM800,000. This factory building had a carrying value of RM490,000. Other buildings were revalued to RM728,000.
2. Plant and machinery with carrying value of RM243,000 were sold for RM196,000.
3. Redundancy payment of RM230,000 was paid to employees who chose to accept the redundancy offer.
4. The accumulated losses and patents were written off.
5. The value of the ordinary shares was reduced by 60 sen per share. The ordinary shareholders subscribed for the issue of new shares on the basis of 2 for 1 at a price of 50 sen per share.

6. Some obsolete inventories costing RM30,000 were written off while outstanding trade receivables of RM19,000 still outstanding were irrecoverable.
7. Reconstruction scheme expense totaling RM43,000 was paid.
8. Outstanding interest on loan was paid off.

Required:

Prepare the following for Sakitan Sdn Bhd:

- (a) **A capital reconstruction account to put into effect the above scheme.**
(10 marks)
- (b) **A bank account and an ordinary share capital accounts.**
(5 marks)
- (c) **Statement of Financial Position of the company immediately after the reconstruction.**
(10 marks)

[Total: 25 marks]

Question 3

Fuji, Jimmy and Karim have been partners in a partnership business selling car accessories. Below is the trial balance of their partnership business, Fujika Enterprise.

Trial balance for the year ended 31 December 2014

| | Debit RM | Credit RM |
|---|---------------------|----------------------|
| Non-current assets (at cost) | 175,000 | |
| Accumulated depreciation as at 1 January 2014 | | 13,000 |
| Cash | 3,450 | |
| Inventory as at 1 January 2014 | 45,000 | |
| Bank | | 15,000 |
| Purchases and sales | 156,000 | 228,000 |
| Operating expenses | 34,500 | |
| Employees' salaries | 66,000 | |
| Bank charges | 2,300 | |
| Trade receivable and payable | 56,000 | 78,000 |
| Capital: | | |
| Fuji | | 80,000 |
| Jimmy | | 70,000 |
| Karim | | 50,000 |
| Current account: | | |
| Fuji | 3,400 | |
| Jimmy | | 14,800 |
| Karim | | 7,850 |
| Cash drawings: | | |
| Fuji | 10,000 | |
| Jimmy | 5,000 | |
| | 556,650 | 556,650 |

Notes:

1. Non-current assets are to be depreciated at 10% per annum on cost.
2. Inventory as at 31 December 2014 was RM44,000.
3. At the year ended 31 December 2014, utility bills outstanding was RM3,560.
4. Included in the operating expenses was RM1,230 incurred for repairing Fuji's private residence.
5. Profit or loss is to be shared based on proportion of the partners' capital contribution ratios.
6. Partners' salaries, interest on drawings are as follows:

| | Salaries | Interest on drawings |
|-------|-----------------|-----------------------------|
| | RM | RM |
| Fuji | 15,000 | 1,000 |
| Jimmy | 8,000 | 800 |
| Karim | 10,000 | - |

Required:

Prepare the following for Fujika Enterprise:

- (a) **A statement of profit or loss for the year ended 31 December 2014.** (10 marks)
- (b) **A statement of appropriation of profit or loss for the year ended 31 December 2014.** (4 marks)
- (c) **Each partner's Current Account (using columnar form).** (5 marks)
- (d) **A statement of financial position as at 31 December 2014.** (6 marks)

[Total: 25 marks]

Question 4

Below are the most recent financial statements of Flow Bhd:

Statement of profit and loss and other comprehensive income for the year ended 31st December 2014

| | RM'000 |
|---|---------------|
| Revenue | 35,000 |
| Cost of sales | (12,500) |
| Gross profit | 22,500 |
| Distribution costs | (8,200) |
| Administrative expenses | (7,200) |
| Finance costs | (1,200) |
| Profit before tax | 5,900 |
| Income tax expense | (2,225) |
| Profit for the year | 3,675 |
| Other comprehensive income | |
| Gain on property revaluation | 125 |
| Total comprehensive income for the year | 3,800 |

Statements of financial position as at 31 December

| | 2014 | | 2013 | |
|-------------------------------------|------------|--------------|------------|--------------|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Non- current assets | | | | |
| Property, plant and equipment | | 1,440 | | 1,200 |
| Investment property | | 500 | | 650 |
| Development expenditure | | 1,000 | | 800 |
| | | | | |
| Current assets | | | | |
| Inventory | 1,220 | | 900 | |
| Accounts receivable | 1,250 | | 1,140 | |
| Insurance claim | 200 | | 100 | |
| Bank | <u>230</u> | 2,900 | <u>Nil</u> | 2,140 |
| | | | | |
| Total assets | | 5,840 | | 4,790 |
| | | | | |
| Equity and liabilities | | | | |
| Equity shares of RM1/each | | 3,300 | | 2,700 |
| Share premium | 480 | | 200 | |
| Revaluation reserve | 200 | | 75 | |
| Retained profit | <u>190</u> | 870 | 125 | 400 |
| | | | | |
| Non- current liabilities | | | | |
| 5% loan notes | Nil | | 200 | |
| Deferred tax | <u>130</u> | 130 | <u>80</u> | 280 |
| | | | | |
| Current liabilities | | | | |
| Accounts payable | 1,330 | | 1,270 | |
| Bank overdraft | Nil | | 90 | |
| Accrued interest expenses | 90 | | 50 | |
| Current tax payable | <u>120</u> | 1,540 | <u>Nil</u> | 1,410 |
| | | | | |
| Total equity and liabilities | | 5840 | | 4,790 |

The following information is available:

1. During the year, an item of plant with a carrying amount of RM330,000 was sold at a profit of RM29,000.
2. Depreciation of RM150,000 was charged to cost of sales for property, plant and equipment for the year ended 31 December 2014.
3. There was no acquisition or disposal of investment property during the year. It is the policy of Flow Bhd to adopt the fair value model for investment property.
4. During the year there was an issue of shares. This transaction has not been recorded in the financial statements.
5. A payment of dividend was made during the year.
6. Expenditure on development projects during the year amounted to RM1,000,000.
7. The insurance claim relates to flood damages to the company's inventories which occurred during 2013. The original estimate has been revised and the claim is expected to be settled in the near future.

Required:

- (a) Prepare a cash flow statement for Flow Bhd for the year ended 31 December 2014 in accordance with MFRS 107 *Statement of cash flows* using the indirect method. (A note to show the movements of cash and cash equivalent is not required).**

(16 marks)

- (b) Calculate the liquidity ratios for the years 2013 and 2014; and comment briefly on the findings.**

(4 marks)

[Total: 20 marks]