Accounting and Costing

Course Assignment (25%)

Semester 3, September 2021

Instructions

1. This is an individual assignment and it covers knowledge acquired from Unit 1 to Unit 4.

2. There are **Five (5)** questions in this assignment. Please answer **ALL** questions in this assignment. Total marks awarded is 100, which will contribute to 25% of the entire course assessment.

3. Evidence of plagiarism or collusion will be taken seriously and the University regulations will be applied strictly, henceforth please be familiar with the University's definitions of plagiarism and collusion. You should not share your answers with others because any evidence of plagiarism or collusion found may result in ZERO mark being awarded to all involved and further disciplinary action taken.

4. Your assignment will be assessed on the factual answer provided based on your reading and analysis from various references related to this course. In addition, you should demonstrate a sound knowledge of the topics covered and adhere to the proper referencing technique.

5. Please follow the format provide by the University for your cover page.

6. Please name and save your assignment accordingly.

7. Assignment due date : 15 October 2021

Question 1

a. Describe the difference between depreciation and depletion. (5 marks)

Depreciation refers to the allocation of expenses to a tangible asset over its useful life with the goal of matching expense recognition to the period the asset was used to generate revenues. On the other hand, depletion is applied to natural resources that are either a raw material in the firm's manufacturing process or the firm's end product for sale to customers. The depletion expense recognized in a given period corresponds to the decrease in asset value between the beginning and end of the recognition period. Depreciation reflects the utilization of an asset used to generate revenue while depletion reflects the utilization of a natural resource that is in itself the source of revenue for the company.

b. Outline the accounting entries required when plant assets are disposed by a company. (10 marks)

On the disposal of plant assets, the company makes entries to recognize a gain/loss on disposal and to remove the permanent accounts related to the plant from its ledger. The gain/loss on disposal is first determined if the asset was sold. If the plant asset is disposed in the middle of the reporting period, depreciation expense is recorded before the gain/loss calculation by debiting depreciation expense and crediting accumulated depreciation. The company realizes a gain equal to the fair value of the consideration received for the asset less its net book value (cost of asset less accumulated depreciation). If the asset is sold for less than its net book value, the company records a loss on disposal. If the asset is sold for an amount equal to its net book value or if it is disposed when fully depreciation, no gain or loss is recognized.

For a fully depreciated asset, the company makes one journal entry to eliminate the plant asset and accumulated depreciation balances by debiting accumulated depreciation and debiting plant asset. For plant disposal through sale, the company debits the cash account for the amount received and the accumulated depreciation account for the total depreciation on the asset to date, credits (debits) an income statement account – gain on disposal (loss on disposal) for the gain (loss) and credits the asset account for original cost.

Question 2

Style photo sells only one product. The statement of comprehensive income for 2021 is provided below:

Sales	60,000
Less variable expenses	(30,000)
Contribution margin	30,000
Less fixed expenses	(22,500)
Net income	7,500

Required:

Calculate with workings:

a. The contribution margin ratio in percentage. (3 marks)
Contribution margin ratio = 50% (30,000/60,000)

b. The breakeven point in total sales ringgits. (3 marks)
Break-even point in sales = Fixed expenses/CM ratio
Break-even point in sales = RM45,000 (22,500/0.5)

c. The sales in RM if the company wants to achieve RM40,000 in net income. (4 marks)

Target sales = (Fixed expenses + net income)/CM ratio
Target sales = (22,500+40,000)/0.5
Target sales = RM125,000
d. The increase in net income if sales increase by RM50,000. (3 marks)

The company is operating above the break-even point as indicated by the positive net income. If sales increase by RM50,000 above the break-even point, net income increases by $25,000, calculated as: CM ratio * increase in sales

e. The contribution margin in RM if there is no change in fixed and variable expenses. (2 marks)
Contribution margin = CM ratio * sales
Contribution margin = 55,000 (0.5 * 110,000)

Question 3

The following are the ledger balances for Elle Cosmetic as at 30 June 2021:

	RM
Sales	44,450
Opening inventory	7,000
Purchases	38,600
Carriage inwards	480
Salaries	6,500
Rents	600
Discount Allowed	200
Repairs and maintenance	2,000
Insurance (for 8 months only)	160
Stationery	100
Commissions paid	260
Interest expense	240
General Expenses	120
Office Equipment	4,400
Bank Overdraft	600
Accounts Receivable	6,800
Provision for Doubtful Debts	200
Accounts Payables	3,200
Mortgage	2,000
Capital	17,010

Below is the additional information which was left out by the accounts clerk.

- The closing inventory as at 30 June 2021 was RM7,400.
- Prepaid rents were RM60.
- Insurance expenses unpaid for 4 months was RM80.
- Accrued salaries were RM150.
- Depreciation on equipment: 10% on cost.
- The provision for doubtful debts is to be made equal to 6% of the Accounts Receivables.

Required:

Prepare:

a. The Statement of Comprehensive Income for the year ended 30 June 2021. (8 marks)

ELLE COSMETIC	
STATEMENT OF COMPREHENSIVE INCOME	
FOR THE YEAR ENDED	
30-Jun-19	
	RM
Gross sales	44,450

Less: Discounts allowed	200
Net sales	44,250
Cost of goods sold	38,200
Gross profit	**6,050**
Operating expenses	
Carriage inwards	480
Salaries expense	6,650
Rent expense	540
Repairs and maintenance expense	2,000
Insurance expense	240
Stationery	100
Commissions expense	260
General expenses	120
Depreciation expense	440
Bad debt expense	208
Total operating expenses	**11,038**
Operating income (loss)	**(4,988)**
Other expenses	
Interest expense	240
Net income (loss)	**(5,228)**

b. The Statement of Financial Position as at 30 June 2021. (7 marks)

ELLE COSMETIC		
STATEMENT OF COMPREHENSIVE INCOME		
FOR THE YEAR ENDED		
30-Jun-19		
	RM	RM
Assets		
Current Assets		
Accounts receivable	6800	
Provision for doubtful accounts	408	
Net accounts receivable		6,392
Inventory		7400
Prepaid rent		60
Total current assets		**13,852**
Non-current assets		
Office equipment	4400	
less accumulated depreciation	440	3960
Total assets		**17,812**
Liabilities and Owner's Capital		
Current liabilities		
Bank overdraft		600
Accounts payable		3200
Salaries payable		150

Insurance payable		80
Total current liabilities		**4030**
Non-current liabilities		
Mortgage		2000
Total liabilities		**6030**
Owner's Capital		
Beginning capital	17010	
Add: net loss	(5,228)	
Ending capital		11,782
Liabilities and owner's capital		**17,812**

Question 4

The following information is taken from Tanaka Bhd for the year ended 31 December 2020.

Preference dividend declared and fully paid in 2020: RM100,000
Ordinary dividend declared and fully paid in 2020: RM3,960,000
Preference share marketable price per unit at 31 December 2020: RM4.60
Ordinary share marketable price per unit at 31 December 2020: RM9.00

Tanaka Bhd		
Statement of Comprehensive Income for the year ended 31 December		
	2020	
		RM'000
Sales		100,000
Less: Cost of sales		(65,000)
Gross profit		35,000
Less: Expenses		
Marketing expenses	(13,000)	
Administration expenses	(9,200)	
Finance expenses	(2,880)	(25,080)
Operating profit before tax		9.920
Taxation		(3,472)
Operating profit after tax		6,448

Tanaka Bhd		
Statement of Financial Position as at 31 December		
	2020	2019
Non-current assets	RM'000	RM'000
Furniture (Net book value)	31,840	29,200
Current assets		
Cash at bank	2,448	3,520
Inventory	13,000	13,200
Accounts receivable	7,600	7,000
Quoted shares	600	500
	23,648	24,220
Current liabilities		
Accounts payable	10,400	10,920
Accruals	300	500
	10,700	11,420
Working capital	12,948	12,800
Non-current liabilities		
Long term loan	18,400	18,000
Net assets	26,388	24,000
Shareholder's equity		
14.4 million ordinary shares	14,400	14,400
500,000 9% preference share	1,000	1,000
Retained profits	10,988	8,600
	26,388	24,000

Required:

a. Calculate the following ratio for 2020: <u>Industry average ratio</u>

i. Current ratio	2.3 : 1
ii. Quick ratio	1.1 : 1
iii. Asset turnover	2.0
iv. Profit margin	4.0%
v. Earnings per share	RM0.46
vi. Rate of return on total assets	11.0%

Assumption: all sales in credit; finance expense means interest; ordinary share outstanding throughout both years = 10,000,000 shares. (6 marks)

Current ratio = Current assets/ Current liabilities
Current ratio = 23,648/10,700

Current ratio = 2.21: 1

Quick ratio = (Current assets – inventory)/ Current liabilities
Quick ratio = (23,648 – 13,000)/10,700
Quick ratio = 0.99: 1

Asset turnover = Sales/ Average total assets
Asset turnover = 100,000/ ((55,488+53,420)/2)
Asset turnover = 1.84

Profit margin = Operating profit after tax/Sales
Profit margin = 6,448/100,000
Profit margin = 6.4%

Earnings per share = Operating profit after tax/Ordinary shares outstanding
Earnings per share = 6,448/10,000
Earnings per share = RM 0.64

Rate of return on total assets = Operating profit after tax/ Total assets
Rate of return on total assets = 6,448/55,488
Rate of return on total assets = 11.6%
b. From the industry average, identify and comment on Tanaka Bhd's profitability and short-term liquidity. (9 marks)

From the profit margin ratio, Tanaka remitted RM 0.064 in profits for every ringgit of sales, which was higher than the RM 0.04 remitted by the average firm in the industry. However, the company generated RM 0.06 (2 – 1.84) less in sales for every ringgit of assets than the average firm in the industry. Despite its lower asset turnover, Tanaka's high profit margin relative to the industry resulted in a slightly higher rate of return on total assets. Tanaka's earnings per share was substantially higher than the industry average with an extra RM0.18 over the industry average for every share outstanding. Overall, Tanaka is more profitable than the average firm in the industry. Management can improve the company's profitability through the improvement of its asset use efficiency. The company's liquidity is comparable to the industry average. From the current ratio, Tanaka's current assets were 2.21 times its current liabilities, which was slightly lower than the industry average of 2. The current ratio is, however, above the benchmark figure of 2. Tanaka's quick ratio of 0.99 was also slightly lower than the industry average. Without considering inventory, which is relatively illiquid, Tanaka's current assets and current liabilities are almost equal indicating sufficient ability to meet its current obligations.

Question 5

Sedunia Berhad was incorporated on 1 July 2020. On 1 August, it decided to issue 300,000 ordinary shares on the following terms:

Application RM1 per share

Allotment RM2 per share

Call as required RM1 per share

To the end of August, applications for 350,000 shares had been received together with the application money due on each share. One applicant for 5,000 shares had forwarded RM20,000 in full payment of the shares.

On 15 September, the directors proceeded to allot 300,000 ordinary shares on the following basis. Applicants for 30,000 shares were refunded their application money in full, 5,000 shares were allotted to the applicant who paid for the shares in full, and the other successful applicants were allotted the remaining shares, excess application money being transferred to allotment.

On 7 October, all allotment money had been received.

A first and final call was made on 1 November, and all call money was received by 30 November with the exception of the amount due on 6,000 shares.

Required:

(a) Prepare journal entries to record the above transactions. Narrations are required.

(30 marks)

Date	Account	Dr	Cr.
31-Aug	Bank	365,000	
	Share application		350,000
	Share allotment in advance		10,000
	Calls in advance		5,000
	Being application money received on 350,000 shares at RM 1 and advance payment share allotment and first call on 5,000 shares at RM2 and RM 1, respectively		
15-Sep	Share application	30,000	
	Bank		30,000
	Being in refund of application money of 30,000 rejected shares at RM1 per share		
15-Sep	Share application	320,000	
	Share allotment in advance	10,000	
	Share capital		300,000
	Share allotment		30,000

	Being application money on 300,000 shares at RM1 transferred to the share capital and transfer of excess share application balance and share allotment in advance to the share allotment account		
7-Oct	Bank	570,000	
	Share allotment		570,000
	Being in the receipt of share allotment money on 285,000 shares at RM 2		
1-Nov	Share first call	295,000	
	Calls in advance	5,000	
	Share capital		300,000
	Being first call money due on 295,000 shares at RM 1 and transfer of calls in advance for 5,000 shares to share capital account		
30-Nov	Bank	289,000	
	Share first call		289,000
	Being on receipt of first call money due on 289,000 shares at RM 1		

(b) Explain what is meant by oversubscription and the measures that a company can take under this situation.

(10 marks)

Oversubscription occurs when the share applications exceed the number of shares offered by the company. In the event of oversubscription, a company can reject some applications and refund the cash paid to investors on a total value basis where investors with high value applications are prioritized and the retail investors with the least value applications are refunded up to the point where the share supply equals demand. If there are many retail investors, the company could also prioritize institutional buyers and high value investors with applications exceeding a certain threshold and award any remaining shares to the remaining buyers using a computerized lottery system. The company could also use a proportional award system where all investors are awarded a proportion of the shares based on the value of their application. More often than not, companies will use a combination of proportional awards and refunds as described in the previous question.

END OF QUESTION PAPER