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SET A

UNIVERSITI KUALA LUMPUR
Malaysia France Institute

FINAL EXAMINATION

JANUARY 2014 SESSION

SUBJECT CODE	:	**FVB30903**
SUBJECT TITLE	:	**INTRO TO BUSINESS ACCOUNT AND FINANCE**
LEVEL	:	**BACHELOR**
TIME / DURATION	:	**9.00 am - 12.00 noon** **(3 HOURS)**
DATE	:	03 JUN 2014

INSTRUCTIONS TO CANDIDATES

1. **Please read the instructions given in the question paper CAREFULLY.**
2. **This question paper is printed on both sides of the paper.**
3. **Please write your answers on the answer booklet provided.**
4. **Answer should be written in blue or black ink except for sketching, graphic and illustration.**
5. **This question paper consists of TWO (2) sections. Section A and B. Answer all questions in Section A. For Section B, answer three (3) question only.**
6. **Answer all questions in English.**
7. **Formula is provided.**

THERE ARE 10 PAGES OF QUESTIONS, 2 PAGES OF FORMULA EXCLUDING THIS PAGE.

SECTION A (Total: 40 marks)

INSTRUCTION: Answer all questions.
Please use the answer booklet provided.

Question 1

a. Identify and explain **TWO (2)** internal users and **TWO (2)** external users of accounting information.

(8 marks)

b. Outline **TWO (2)** differences between financial accounting and management accounting.

(4 marks)

c. State and explain **TWO (2)** items reported in the income statement and two (2) items reported in the balance sheets.

(8 marks)

Question 2

Arena Sdn. Bhd. buys and sells automotive assembly machine parts. The company has recorded the following transactions for the year ended 31st December 2008 as in Table 1 :

Table 1 : Transactions of Arena Sdn. Bhd for the year ended 31st December 2008

Date	Transaction	Unit	Cost per unit (RM)	Selling price (RM)
1 January	Opening Balance	200	7.50	
3 February	Purchase	400	8.00	
5 March	Purchase	200	8.50	
8 April	Sales	300		12.00
8 June	Sales	200		14.00
10 July	Purchase	500	9.00	
5 October	Sales	500		16.00
7 November	Sales	100		18.00
9 December	Purchase	300	9.50	

a. Compute the cost of Goods Sold and the value of the closing stock using :
   i. FIFO perpetual system
   ii. LIFO perpetual system

(20 marks)

(Please answer question no. 2 (i and ii) in table format)

SECTION B (Total: 60 marks)

INSTRUCTION: Answer THREE (3) questions only.
Please use the answer booklet provided.

Question 3

Mr. Lori Crump owns a small trucking operation. The bookkeeper presented Mr. Crump with the following income statement and balance sheets for 2006 and 2005 as in the table 2 below :

Table 2 : Income statement and balance sheet of Mr. Lori Crump for the year 2005 and 2006

Income Statement

		RM 2006		RM 2005
Revenues		191,400		182,600
Operating expenses :				
Depreciation	26,400		26,400	
Fuel	77,000		46,200	
Driver's salaries	44,000		35,200	
Tax and licenses	22,000		17,600	
Repairs	30,800		19,800	
Miscellaneous	2,200	202,400	1,100	146,300
Income (Loss)		**(RM 11,000)**		**RM 36,300**

Balance Sheets

	RM 31 December 2006	RM 31 December 2005
Cash	22,000	4,400
Account receivable	8,800	26,400
Net fixed assets	198,000	224,400
Total Assets	**228,800**	**255,200**
Account payable	30,800	22,000
Accrued salaries	8,800	5,500
Other accruals	3,300	1,100
Long-term debt	100,100	129,800
Crump, capital	85,800	96,800
Total Liabilities and Capital	**228,800**	**255,200**

Mr. Lori Crump does not understand how the company can be RM 17,600 ahead of last year in terms of cash on hand and yet has shown an RM 11,000 loss for the year.
You are required to :

a. Prepare a cash flow statement (direct method) to use in explaining this to Mr. Lori Crump.

(20 marks)

Question 4

Clover, produces novelty car polishes. Each bottle is sold for RM 3.60. Variable unit costs are as followed :

	RM
Acrylics base	0.75
Wax base	0.38
Other ingredients	0.35
Bottle, packing material	1.15
Selling commission	0.25

Fixed overhead costs are RM 12,000 per year. Fixed selling and administrative costs are RM 6,720 per year. The company sold 35,000 bottles last year.

You are required to calculate :

a. What is the contribution margin per unit for a bottle of car polish? What is the contribution margin ration?

(4 marks)

b. How many bottles must be sold to break even? What is break-even sales revenue?

(4 marks)

c. What was Clover's operating income last year?

(4 marks)

d. What was the margin of safety?

(2 marks)

e. Clover is supposed to raise the price to RM 4.00 per bottle, but anticipated sales will drop to 30,400 bottles. What will the new break-even point in units? Should Clover raise the price? Explain. (6 marks)

Question 5

Tucson Lamp Company is noted for its full line quality of lamps. The company operates one of its plants in Klang Valley. The plant produces two types of lamps : classical and modern. Dato' Norhalil Helmi, the president of the company, recently decided to change from a unit-based, traditional costing system to an activity-based costing system. Before making the change companywide, he wanted to assess the effect on the product costs of the Klang Valley plant. This plant chosen because it produces only two types of lamp; most other plants at least a dozen.

To assess the effect of the change, the following data has been gathered (for simplicity, assume one process):

Lamp	Quantity	Prime Cost	Machine Hours	Material Moves	Set up
Classical	400,000	RM 800,000	81,250	300,000	100
Modern	100,000	RM 150,000	43,750	100,000	50
Amount (RM)	-	RM 950,000	RM 500,00*	RM 900,000	RM 600,000

**The cost of operating the production equipment*

Under the current system, the cost of operating equipment, materials handling and set up are assigned to the lamps on the basis of machine hours. Lamps are produced and moved in bathes.

You are required to :

a. Compute the unit cost of each lamp by using current unit-based approach. (10 marks)

b. Compute the unit of each lamp by using an activity-based costing approach. (10 marks)

Question 6

Option 1

You are to evaluate a proposed machine for R&D department. The basic price is RM 340,000 and it would cost another RM 130,000 to modify the equipment for special use by the firm. The equipment will be depreciated in 4 years and would be sold after 4 years for RM 60,000.

The new product is sold for RM 18.00 a unit and the cost is RM 10.00 a unit.

The production and sales of the product would be expected to occur as follows :-

	Number of Unit
1st year	25,000
2nd year	19,000
3rd year	25,000
4th year	20,000

Option 2

You are to evaluate a proposed machine for manufacturing and selling a product that the business has recently developed. The basic price is RM 150,000 and it would cost another RM 50,000 to modify the machine for special use by the firm. Production and sales would take place throughout the next four (4) years. At the end of four (4) years, the machine would be sold RM 80,000.

The new product is sold for RM15.00 a unit and the cost is RM 8.00 a unit.

The production and sales of the product would be expected to occur as follows :-

	Number of Unit
1st year	15,000
2nd year	12,000
3rd year	20,000
4th year	18,000

a. What is the net cost of the machine, or what is the Year 0 project cash flow for both options?

(2 marks)

b. Calculate Accounting Rate of Return (ARR) for both options. Which option gives the higher return in terms of percentage? (9 marks)

c. Calculate payback period for both options. If the company required minimum payback period of two (2) years, which option will be accepted or rejected?

(9 marks)

(Please answer question no. 7 b & 7 c in table format)

END OF QUESTION

Appendix 1 for Question No. 3 (attached and submit with your Answer Booklet)

Statement of cash flows for the year ended 31 December 2006

	RM	RM
Cash flows from operating activities		
Receipts from customer + other income		
Payments to suppliers and employees		
Dividends received		
Interest received		
Interest paid		
Income taxes paid		
Net cash provided by operating activities		
Cash flows from investing activities		
Payments for non-current assets		
Proceeds from sale on non-current assets		
Net cash used in investing activities		
Cash flows from financing activities		
Proceeds from issue of shares		
Proceeds from borrowings		
Repayment of borrowings		
Dividend s paid		
Net cash provided by financing activities		
Net increase/decrease in cash for the year		
Cash at the beginning of the financial year		
Cash at the end of the financial year		

1. Receipts from customer

Opening balance of account receivable (trade debtor)	XX
+ sales for the period	XX
Gives amount we might expect to receive for the year	XX
-closing balance of account receivable	XX
Cash received from customer	XX

2. Payment to supplier and employee

Step 1

Opening balance of accruals expenses	XX
-Opening balance of prepaid expenses	XX
+ relevant expenses for the period	XX
Gives the amount we might expect for the year	XX
+ closing balance prepaid expenses	XX
-closing balance of accrual expenses	XX
Cash paid for operating expenses for the year	XX

Step 2

Opening balance of account payable (trade creditor)	XX
+ purchase of inventory for the period	ZZ
Gives the amount we might expect to pay for the year	XX
-closing balance of account payable	XX
Cash paid to account payable	XX

How to calculate ZZ

Opening inventory	XX
+ purchase inventory	ZZ
Amount available for sales	XX
-closing inventory (amount unsold)	XX
Cost of sales	XX

FORMULA

$$\text{BREAK EVEN POINT (BEP)} = \frac{\text{FIX COSTS}}{\text{SALES REVENUE PER UNIT - VARIABLE COST PER UNIT}}$$

$$\text{CONTRIBUTION MARGIN PERCENTAGE (CMP)} = \frac{\text{UNIT PRICE (UP) - UNIT VARIABLE COST (UVC)}}{\text{UNIT PRICE (UP)}}$$

$$= \text{UNIT PRICE (UP)} = \frac{\text{UVC}}{1 - \text{CMP}}$$

$$\text{INCOME (I)} = \text{(UNIT PRICE - UNIT VARIABLE COST) x VOLUME (X) - TOTAL FIX COST (TFC)}$$

$$\text{MARGIN OF SAFETY} = \frac{\text{SALES}}{\text{BREAK EVEN IN SALES (RM)}}$$

$$\text{CONTRIBUTION MARGIN} = \text{SALES REVENUE PER UNIT - VARIABLE COST PER UNIT}$$

$$\text{CONTRIBUTION MARGIN RATIO} = \frac{\text{CONTRIBUTION MARGIN}}{\text{SALES REVENUE PER UNIT}}$$

TARGET PROFIT

$$\text{TARGET VOLUME } (X_T) = \frac{\text{TOTAL FIX COSTS + TARGET PROFIT}}{\text{UNIT PRICE (UP) - UNIT VARIABLE COST (UVC)}}$$

$$\text{ACCOUNTING RATE OF RETURN (ARR)} = \frac{\text{AVERAGE ANNUAL PROFIT}}{\text{AVERAGE INVESTMENT TO EARN THAT PROFIT}} \times 100$$