UNIVERSITI POLY-TECH MALAYSIA
UPTM

FINAL EXAMINATION

BACHELOR OF ACCOUNTANCY (HONOURS)

COURSE	:	FINANCIAL STATEMENT ANALYSIS
COURSE CODE	:	ACC4313/ACC4133
DURATION	:	3 HOURS

INSTRUCTIONS TO CANDIDATES :

1. This question paper consists of **FOUR (4)** questions.
2. Answer ALL questions in the Answer Booklet provided.
3. Please check to make sure that this examination pack consists of:
   i. the Question Paper
   ii. an Answer Booklet
4. Do not bring any material into the examination hall.
5. The use of a calculator is allowed.
6. Please write your answer using permanent ink.

MYKAD/
PASSPORT NO. : ____________________

ID. NO. : ____________________

LECTURER : ____________________

SECTION : ____________________

DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE TOLD TO DO SO

The question paper consists of 8 printed pages including the front page

QUESTION 1

A. Many businesses find it difficult to capitalize on research and development expenditures. As a result, thousands of ringgit are expensed to the Statement of Profit or Loss.

Required:

Assess **TWO (2)** reasons why many businesses find it difficult to capitalize on research and development expenditure.

(10 marks)

B. Mr. Chan is new to shares trading in Bursa Malaysia. Hence, he begins by analyzing the financial statements to help him understand better. However, he is confused about why there are items in operating income and some in other income in the Statement of Profit or Loss. As to him, both are still income to the company. He seeks advice from you.

Required:

Justify the importance of differentiating between operating and non-operating income.

(5 marks)

(Total: 15 marks)

QUESTION 2

Symphony Engineering Sdn Bhd supplies electronics components. The company gets its supplies from China, Thailand, and India. Recently, Symphony has been considering to manufacture electronics components. The increased crude oil and decreased Malaysian currency have recently doubled the company's delivery costs. However, the board of directors is still skeptical as manufacturing the electronic components will require the company to incur substantive capital expenditure, subsequently affecting the company's cash flow. Hence, the board requires the accounting department to provide relevant information to them.

During the department meeting, Salwan, the head of the accounting department, presented the following:

1. The company expects to sell 5,000,000 units in 2024 at an estimated selling price per unit of RM450. The estimated cost per unit is RM120.

2. The relevant costs to manufacturing the components:

Acquisition of factory	RM2,500,000
Useful life	50 years
Machines	RM5,800,000
Useful life	10 years
Direct material/unit	RM25
Direct labor/unit	RM120
Overhead/production	RM30

3. The following are excerpts from the Financial Statements as of 31 December 2023.

	RM'000
Profit before tax	5,500,000
Cash at bank	8,750,000
Account payables	1,250,000
Account receivables	920,000

4. Symphony also estimates that accounts payables will be increased by 10% if the company continues to buy from suppliers. However, account payables will decrease by 30% considering the purchase of direct materials if the company decides to manufacture the electronics components. There will be no change in account receivables.

5. Symphony is entitled to obtain a loan from November Bank amounting to RM5 million to finance the acquisition of the factory and partly the machines. The November Bank will charge RM100,000 interest per annum.

6. Currently, the company incurs operating expenses of RM890,500,000. The operating expenses are expected to increase by 50% if the company decides to purchase the electronic components due to the increase in delivery costs. However, the current operating expenses must be adjusted with wages and salaries if the company manufactures its electronic components. The company estimates wages and salaries will increase to RM6,800,000 due to direct labor.

7. The tax rate is estimated at 20%.

8. Assume tax and interest expenses are paid when they are due.

Required:

a. Calculate Profit After Tax for the year ended 31 December 2024 if the company decides to:

   i. purchasing the electronic components from the suppliers.
   (4 marks)

   ii. manufacturing the electronic components.
   (6 marks)

b. Calculate proforma Statement of Cash Flow (indirect method) for the year ended 31 December 2024 if the company decides to:

   i. purchasing the electronic components from the suppliers.
   (4 marks)

   ii. manufacturing the electronic components.
   (6 marks)

c. Justify the best option for Symphony based on your answer in (b).
(2 marks)

d. Assess **TWO (2)** factors that Symphony must consider before implementing the best option in (c).
(8 marks)

(Total: 30 marks)

QUESTION 3

Zoom X Sdn Bhd is a limited company that produces multipurpose silicone used in electronic products. Currently, the R&D department is undergoing research on a new type of silicone. The new type of silicone will have better durability and, hence, can be used in heavy industries. If the product development went well, it is expected that the RNOA will be at 25%.

However, Zoom may need an additional capital of RM10,000,000 for the final stage of product development. The additional capital will be used to acquire a special machine costing RM4,500,000 and to purchase Y-Latex, a special material for the new silicone.

Consequently, Mr Gopal, the CEO, decided to raise capital to finance the final stage of the new silicone.

Additional information:

1. The following is an extract from the company's Statement of Financial Position as at 30 June 2023.

Statement of Financial Position as at 30 June 2023 (extract)

	RM	RM
Non-current assets		
PPE (net carrying amount)		20,000,000
Current Assets	15,000,000	
Less: Current Liabilities	4,000,000	
Working Capital		11,000,000
Net Operating Assets		31,000,000
Financed by:		
Equity		31,000,000

2. The company is eligible for a long-term bank loan as follows:

Below RM5,000,000	10% per annum
RM5,000,000 to RM10,000,000	12% per annum
More than RM10,000,000	13% per annum

3. Assume the tax rate is 20%.

Required:

a. For the year ended 30 June 2023, calculate:

   i. Net Operating Profits After Tax (NOPAT)
   ii. Net income

(2 marks)

b. Calculate net operating profits after tax (NOPAT) and net income if the company decides to finance by:

   i. Share equity.
   ii. Debt equity.
   iii. Mixed equity of RM5,000,000 long-term bank loan and RM5,000,000 of ordinary shares capital.

(12 marks)

c. Calculate the Return on Capital Employed (ROCE) if the company decides to finance by:

   i. Share equity.
   ii. Debt equity.
   iii. Mixed equity of RM5,000,000 long-term bank loan and RM5,000,000 of ordinary shares capital.

   (Provide your answer to three decimal points)

(8 marks)

d. Recommend the best alternative to the board.

(3 marks)

e. Justify whether the overnight policy rate (OPR) enforced by the Bank Negara Malaysia will affect your decision in (d).

(5 marks)

(Total: 30 marks)

QUESTION 4

Chepa Construction Sdn Bhd is considering investing in a new project in Kota Samarahan, Sarawak. The project will be a stepping stone for Chepa to enter Sarawak's market, as Kota Samarahan is expected to be the next city center of Sarawak. The project is to construct a low-cost township for the local community. The project is worth RM10,000,000 and is expected to complete in two years. The company estimates the revenue will be RM8,000,000 in year 1 and RM6,000,000 in year 2. However, investing in the project requires additional capital of RM8,000,000 to cover the costs, for which the company intends to issue RM5,000,000 of ordinary shares capital and borrow RM3,000,000 from the local bank. The costs will be equally allocated to year 1 and year 2.

The company will allocate 40% of the capital to acquire property, plant, and equipment for Kota Samarahan's office. The balance of the capital will be used to finance its working capital. As a result, the company expects its current assets to increase to RM12,640,000, of which the company will keep the inventories of RM3,500,000.

The company also provides an extract from the company's Statement of Financial Position as at 31 December 2023.

Statement of Financial Position as at 31 December 2023 (extract)

	RM	RM
Non-current assets (net carrying amount)		10,000,000
Current Assets	4,000,000	
Less: Current Liabilities	1,000,000	
Working Capital		3,000,000
Net Operating Assets		13,000,000
Financed by:		
Equity		8,000,000
Non-current liabilities		5,000,000
		13,000,000

Additional information:

1. The closing inventories reported for the year ended 31 December 2023 is RM850,000.
2. The company earned net sales of RM8,000,000 and incurred costs of goods sold of RM2,800,000 for the year ended 31 December 2023.
3. It is expected that there will be no changes to the operating expenses.
4. The net profit margin for the year ended 31 December 2023 is 25%.
5. The tax rate is 20%.

Required:

a. Prepare a proforma Statement of Profit or Loss and a Statement of Financial Position for Year 1 if the company undertakes the low-cost township project.

(12 marks)

b. Determine the following ratio based on your answer in (a).

i. Current ratio

ii. Acid test ratio

iii. Debt-to-equity ratio

iv. Stock turnover ratio

v. Gross profit margin

vi. Net profit margin

(7 marks)

c. Evaluate whether the company shall undertake the low-cost township project if solvency matters.

(6 marks)

(Total: 25 marks)

(TOTAL: 100 MARKS)

END OF QUESTION PAPER