



**Malaysian Institute of Accountants**  
(Established under the Accountants Act 1967)  
**Institut Akauntan Malaysia**  
(Diperbadankan di bawah Akta Akauntan 1967)

## QUALIFYING EXAMINATION

### Taxation

Date : 23 March 2006

Time : 2.30 pm – 5.30 pm (3 hours)

#### INSTRUCTIONS TO CANDIDATES:

This question paper contains 5 questions on 14 printed pages.

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Answer ALL questions.

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**Answer questions 1 and 2 in separate booklet(s) from questions 3, 4 and 5.**

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**Do not open this paper until instructed by the invigilator**



**UNIVERSITI TEKNOLOGI MARA**  
Examination Body

**Paper : Taxation**

- The following tax rates are to be used in answering the questions.

	<b>Income tax rates</b>
(a) Companies	28%
(b) Small companies	20%
(c) Resident individuals	

<b>Chargeable Income</b>	<b>Rate</b>	<b>Cumulative Tax</b>
<b>RM</b>		<b>RM</b>
0 - 2,500	0%	0
2,501 - 5,000	1%	25
5,001 - 20,000	3%	475
20,001 - 35,000	7%	1,525
35,001 - 50,000	13%	3,475
50,001 - 70,000	19%	7,275
70,001 - 100,000	24%	14,475
100,001 - 250,000	27%	54,975
Above 250,000	28%	

- (d) Non-resident individuals 28%

- Benefits-in-kind (BIK) scale rates as per Inland Revenue Board (IRB) guidelines**

<b>Cost of car when new</b>	<b>Annual value of BIK</b>	<b>Fuel per annum</b>
<b>RM</b>	<b>RM</b>	<b>RM</b>
Up to 50,000	1,200	600
50,001 – 75,000	2,400	900
75,001 – 100,000	3,600	1,200
100,001 – 150,000	5,000	1,500
150,001 – 200,000	7,000	1,800
200,001 – 250,000	9,000	2,100
250,001 – 350,000	15,000	2,400
350,001 – 500,000	21,250	2,700
500,001 and above	25,000	3,000

The value of the car benefit equivalent to half of the above rates is taken if the car provided is more than five years old but the value of fuel provided will remain unchanged.

Where a driver is provided, the value of the benefits is fixed at RM600 per month.

- **Household furnishing, apparatus and appliances**

<b>Types of BIK</b>	<b>Annual value of BIK RM</b>
Semi-furnished with furniture in the lounge, dining room or bedrooms	840
Plus one or more of the following: air-conditioners, curtains, carpets	1,680
Plus one or more of the following: Kitchen equipment, crockery, utensils, appliances i.e. fully furnished	3,360

- **Real property gains tax**

<b>Disposals within the following period after acquisition:</b>	<b>Tax rate %</b>		
	<b>A Companies</b>	<b>B Other except C</b>	<b>C Non-citizens</b>
In the first two years	30	30	30
In the third year	20	20	30
In the fourth year	15	15	30
In the fifth year	5	5	30
In the sixth year of thereafter	5	0	5

- **Rates of Capital Allowances**

	<b>Motor Vehicles</b>	<b>Plant &amp; Machinery</b>	<b>Computers</b>	<b>Others</b>	<b>Industrial Building</b>
Initial allowance	20%	20%	20%	20%	10%
Annual allowance	20%	14%	40%	10%	3%

## QUESTION 1

- (a) Sporty Way Sdn Bhd has been a wholesale distributor supplying a wide range of sports equipment to supermarkets and stores throughout Malaysia and South East Asia since 1998.

The profit and loss account for the year ended 31 July 2005 is as follows:

	Note	RM'000	RM'000
Sales	1	28,850	
Less: Sales return	2	<u>1,912</u>	
Net Sales		26,938	
Less: Cost of sales	3	<u>17,920</u>	9,018
Less: <b>Operating expenses:</b>			
Remuneration	4	2,890	
Selling and distribution	5	720	
Professional fees	6	170	
Bank charges	7	310	
Repairs and maintenance	8	910	
Bad and doubtful debts	9	530	
Foreign exchange loss	10	249	
Loss on sale of van	11	21	
Contributions	12	793	
Depreciation		482	
Transport and travelling	13	352	
Miscellaneous	14	172	
Compensation	15	344	
Amortization of goodwill		180	
Training	16	25	
Scholarships	17	<u>62</u>	<u>8,210</u>
			808
Add: Other income			
Dividends (net)	18	1,038	
Interest	19	<u>650</u>	<u>1,688</u>
<b>Profit before taxation</b>			<u><u>2,496</u></u>

## Notes:

- Sales  
Goods valued at cost RM425,000 were taken for personal use of the directors. The market value of these goods was RM510,000.
- Sales returns  
Actual returns made by customers due to faulty goods were RM2,210,000. The amount in the accounts was erroneously recorded as RM1,912,000.

3. Cost of sales include:
- Closing inventory was RM560,000 but the actual physical count at year end was RM680,000.
  - Stock valued at RM96,500 is yet to be sent to a customer at the year end due to a delay in transporting the goods.
  - Provision for stock obsolescence was RM390,500.
4. Remuneration includes:
- Salary of a blind executive at RM1,800 per month.
  - The company's contribution to the Employees Provident Fund is RM610,645. The company allocated five (5) percent of the total remuneration to a provision for retirement benefits account. This is included in the amount of RM2,890,000.
5. Selling and distribution expenses include:
- Cost of RM420,000 for participating in an international trade fair in South Africa which was approved by the Ministry of International Trade and Industry (MITI).
  - Expenditure of RM72,500 incurred on local advertising to promote products of the company.
6. Professional fees include:
- |  | <b>RM'000</b> |
|--|---------------|
| - Tax and accounting fees  | 29            |
| - Technical fees paid to Desire Ltd, a German company (on which the withholding tax was not deducted) for work carried out in Malaysia | 52            |
| - Legal fees for defence on charge concerning violation of the Companies Act in respect of the annual general meeting.                 | 20            |
| - Secretarial fees   | 12            |
7. Bank charges include:
- Interest of RM47,000 paid to International Finance Bhd for a loan obtained which was invested in the purchase of 40,000 units of Ultra Bhd shares.
  - Overdraft and short term loan interest incurred to finance the operation of the business amounting to RM195,000.
8. Repairs and maintenance include:
- |                                   | <b>RM'000</b> |
|-----------------------------------|---------------|
| Upgrading of fire safety system   | 25.5          |
| Resurfacing of car park           | 81.5          |
| Machinery and vehicle maintenance | 132           |
| Renovation of office              | 310           |
| Rewiring                          | 21            |

9. Bad and doubtful debts comprise:

	<b>RM'000</b>
Bad debts written off during the year	214
Net increase in general provision	312
Net increase in specific provision	195
	<u>721</u>
Bad debts recovered during the year	(191)
	<u>530</u>

All the debts are trade debts except for a sum of RM67,000 written off which is in respect of a loan made to an ex-accountant.

10. Foreign exchange loss/gain include:

	<b>RM'000</b>
- Realised losses on stock purchases	65
- Unrealised losses due to repayment of foreign loan for buying a machine	39
- Realised loss on purchase of plant from Taiwan	35
- Unrealised gain from trade creditors	(15)

11. The van was purchased on 1 July 2002 at a cost of RM98,000 and sold on 1 August 2005 for RM16,500. The book value at the time of sale was RM37,500.

12. Contributions comprise:

	<b>RM'000</b>
- Cash contribution to the National Public Library, Kuala Lumpur	298
- Donation to an approved institution	200
- Contribution to an approved research and development company	150
- Contribution for health care facilities to General Hospital, Kuala Lumpur	145
	<u>793</u>

13. Transport and travelling includes:

	<b>RM'000</b>
- Marine insurance premium paid for import of goods	108
- Freight charges	70
- Travelling allowance for company's directors	31
- Leave passage to Tokyo for the finance manager and family	28

## 14. Miscellaneous expenses include:

	<b>RM'000</b>
- Medical insurance for company's managing director	7
- Fire insurance premium for company's premises	18
- Losses due to theft of stock in trade	121
- Insurance claim for damage to office equipment	(15)
- Traffic fines paid for managers	5

## 15. Compensation comprises:

	<b>RM'000</b>
- Compensation to clients for damaged goods	29
- Compensation to a sports company for agreeing to close down one of its branches in Malaysia	315
	<u>344</u>

16. Training expenses include a sum of RM25,000 incurred in sending the company's employees to attend courses conducted by the National Productivity Centre (NPC). A letter from the institution certifying such attendance is available.

17. Scholarships were awarded to Encik Tham (RM32,000) and Cik Azida (RM30,000) who studied full time at Universiti Petronas Malaysia. They did not have any means of their own. Tham's parents earned a total monthly income of RM4,800 whereas Azida's guardian earned a total monthly income of RM5,800.

## 18. Dividends were received from the following:

	<b>Gross RM'000</b>	<b>Tax RM'000</b>	<b>Net RM'000</b>
Gear Sdn Bhd			
- Interim (4 January 2005)	500	140	360
- Final (1 March 2005)	600	168	432
Camp Products Pte Ltd (Singapore)	-	-	246

These shares were acquired between 2000 to 2004 as investments from the company's cash surplus. Dividend income from Camp Products Pte Ltd was remitted to Malaysia during the financial year.

19. Interest from excess funds deposited with an overseas bank was credited and remitted to Malaysia on 30 June 2005.

## 20. Other information:

- (i) Business loss brought forward from previous year amounted to RM229,000
- (ii) Capital allowances computed for the current year amounted to RM345,000 and balancing charge amounted to RM25,000.

**Required:**

Compute the tax payable by Sporty Way Sdn Bhd for the year of assessment 2005. Every item mentioned in the notes to the accounts must be stated in your computation irrespective of whether an adjustment is required or not. Where no adjustment is required, indicate 'NIL' in the appropriate column.

(17 marks)

- (b) Aura Bhd constructed a factory at a cost of RM2,800,000 of which RM1,200,000 was for the cost of the land. The building was completed on 1 November 1999 and one eleventh (1/11) of the building was used as an office.

On 1 February 2004, the building was sold to Fantasy Bhd for RM3,750,000 (including RM1,400,000 for the land). Fantasy Bhd uses the whole building as a factory.

An extension to the building costing RM140,000 was constructed by Fantasy Bhd and completed on 2 May 2004. It was used as a warehouse for the storage of raw materials for its manufacturing business.

Both companies close their accounts on 31 March annually.

**Required:**

Compute the industrial building allowances and balancing charges (if any) for both companies for all the relevant years of assessment up to the year of assessment 2005.

(8 marks)

- (c) BCF Sdn Bhd, a company manufacturing boxes, acquired the following machine on hire purchase:

	<b>RM</b>
Cost of machine	138,000
Deposit paid on 1 June 2004	30,000
Hire purchase (principal amount)	124,800
Hire purchase interest	16,800
Term of repayment	24 months

The first installment of RM5,200 commenced on 1 July 2004. The company ends its accounts to 30 September annually.

**Required:**

Compute the capital allowances in respect of the machine (which does not qualify as heavy machinery) for years of assessment 2004 and 2005.

(5 marks)

**(Total: 30 marks)**

**QUESTION 2**

- (a) Mr Teo, a Hong Kong national, left Malaysia on 1 January 2006. His period of stay in Malaysia were as follows:

- 16 November 2003 to 31 December 2003
- 1 January 2004 to 9 February 2004
- 22 February 2004 to 30 April 2004
- 3 May 2004 to 1 July 2004
- 21 September 2004 to 30 November 2004
- 1 June 2005 to 31 December 2005

He was in Hong Kong twice for social visits from 10 February 2004 to 21 February 2004 (12 days) and again from 1 May 2004 to 2 May 2004 (2 days)  
On 1 January 2006, he left Malaysia on the 3 pm flight to Hong Kong.

**Required:**

Determine the residence status of Mr Teo for each of the year of assessment and state the reasons for your answers by stating the relevant sections of the Income Tax Act 1967.

(3 marks)

- (b) State the circumstances under which a temporary absence from Malaysia would be accepted as being part of the period of 182 days or more for the purpose of determining the residence status of an individual.

(3 marks)

- (c) The income and claims for tax relief of Mr Liew and Mrs Liew for the year ended 31 December 2005 are as follows:

<b>Mr Liew</b>	<b>RM</b>
Business – adjusted loss	(18,700)
Dividend (net) – Shell Bhd	14,400
Rental income from house in Johor Bahru	35,000
Donation to welfare home (approved)	1,200
Life insurance premium paid on his life	6,200

<b>Mrs Liew</b>	<b>RM</b>
Business – adjusted income	25,000
Employment:	
Salary (gross)	60,000
Benefits provided by the employer:	
- One overseas leave passage on 20 June 2005	8,600
- Water and electricity bills	510
- Child care benefit	6,200
- One local leave passage on 31 October 2005	1,700
Dividend (net) – Esso Bhd	21,600
Rental income from house in Sarawak	14,000

	<b>RM</b>
Interest from savings account with a licensed finance company (deposit RM9,000)	315
Royalty from translation of books (approved)	26,000
Employees Provident Fund contributions	5,400
Life insurance premium paid on her life	1,400
Donation to Red Crescent (approved)	3,200

Mrs Liew did not elect for joint assessment but she did claim for child relief:

Eldest child	-	Twenty one years old, married and pursuing her first year degree at Universiti Utara Malaysia.
Second child	-	Twenty years old and pursuing her first year degree course at a local university.
Third child	-	Nineteen years old and married
Fourth child	-	Fifteen years old, at Sri Kuala Lumpur School
Fifth child	-	Ten years old and handicapped
Sixth child	-	Five years old

**Required:**

Compute the income tax payable by Mr Liew and Mrs Liew for the year of assessment 2005.

(14 marks)  
**(Total: 20 marks)**

**QUESTION 3**

- (a) Daniel and Vincent have been partners in an electronic games business since 2000. Daniel and Vincent contributed capital of RM50,000 and RM70,000 respectively to the business. The accounting period ends on 31 December every year. The partnership accounts for the year ended 31 December 2005 showed the following information:-
- i) The partnership business earned net income of RM42,600.
  - ii) The partnership made a cash donation of RM5,000 and donated two (2) used computer with a market value of RM3,000 during 2005 to approved institutions.
  - iii) On 16 October 2005, the partnership incurred RM20,000 to repair one of its motor vehicles. This was not included in the accounts.
  - iv) On 1 April 2005, Tammy joined the partnership by contributing a capital of RM40,000.

v) The partnership agreement has the following details:

(a) Before the admission of Tammy:

	Daniel	Vincent
Interest on capital (per annum)	5%	5%
Profit /loss sharing ratio	$\frac{1}{2}$	$\frac{1}{2}$
Salary per month	RM200	RM200
Travelling allowance per month	RM1,000	RM1,500

(b) After admission of Tammy:

	Daniel	Vincent	Tammy
Interest on capital (per annum)	5%	5%	5%
Profit/loss sharing ratio	<b>Based on capital contribution</b>		
Additional capital contributed on 1 July 2005	Nil	RM20,000	Nil
Salary per month	RM200	RM400	RM150
Travelling allowance per month	RM1,000	RM1,500	RM800

vi) The capital allowance of the partnership for the year of assessment 2005 was RM9,000.

**Required:**

Calculate for the year of assessment 2005:

- (i) The provisional adjusted income and the divisible income of the partnership.  
 (ii) Total income of each partner.

(15 marks)

(b) The Taman Segar Co-operative Society was registered in 1998. It runs a laundry business at a residential area and is funded by its members. The accounts of the Co-operative Society are prepared to 31 December annually. The following information was extracted from the audited accounts of the society for the year ended 31 December 2005.

	<b>RM'000</b>
Profit from the laundry business	63
Net dividend (from resident company)	720
Fixed deposit interest	100
Audited net profit	<u>883</u>

The detailed breakdown of its members' funds as at 1 January 2005 and 31 December 2005 are as follows:

	<b>1 /1/2005</b>	<b>31/12/2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Paid up capital	400	500
Bonus share ( issued out of revaluation surplus of property)	100	100
Share premium reserve	120	140
Unappropriated profits	500	820
Statutory reserve fund	800	900
	<u>1,920</u>	<u>2,460</u>

**Required:**

Compute the chargeable income of the co-operative society for the year of assessment 2005.

(5 marks)

**(Total: 20 marks)**

**QUESTION 4**

- (a) Quality Accessories Sdn Bhd (QASB) has been in the business of manufacturing kitchen accessories for several years. Its business operation is located in Klang. Multiple Accessories Sdn Bhd (MASB), which deals with office accessories in Johor, wishes to diversify into kitchen accessories. For that purpose, it seeks assistance from QASB. MASB agreed to pay RM2,000,000 to QASB as consideration for the transfer of knowledge and technology on condition that QASB does not sell its accessories in Johor.

**Required:**

Explain the circumstances under which the sum received by QASB:

- (i) is subject to tax under the Income Tax Act 1967, or  
 (ii) not subject to tax under the Income Tax Act 1967.

(5 marks)

- (b) In 2002, SA Properties & Development Sdn Bhd constructed a shopping complex consisting of 200 shop lots for rental purposes. The cost of the site and the construction was capitalised and disclosed as 'Land and Building' under fixed assets in its balance sheet.

However, due to financial problems over the last three years, SA Properties & Development Sdn Bhd sold off 170 shop lots and realised a gain of RM10 million which was disclosed as an extraordinary capital gain in its accounts. Expenses such as advertising and commissions were incurred in selling the shop lots.

**Required:**

Explain, with reasons whether the RM10 million gain realised by SA Properties & Development is chargeable to income tax.

(5 marks)

- (c) Time Reno Sdn Bhd sells office furniture and fittings. Its business premises are located near the town centre in Kangar, Perlis. Due to the recent flood in the area, the manager's office situated on the ground floor was slightly damaged and required minor repairs. However, Time Reno Sdn Bhd relocated the office to the first floor and replaced all the office furniture in the manager's office.

**Required:**

State your arguments for and against deductibility of the expenditure incurred by Time Reno Sdn Bhd.

(5 marks)

**(Total: 15 marks)**

**QUESTION 5**

- (a) Tokio Ltd, a Japanese resident company has secured a contract to supply materials for landscaping works from a State Government in Malaysia. A greenery park, walkways and waterways costing RM90 million will be constructed under the project.

Tokio Ltd through a representative in Malaysia will supply the materials for the landscaping works including plants to be planted along the waterways, walkways and park. The representative has no authority to conclude contracts in the name of Tokio Ltd but maintains a stock of materials on behalf of Tokio Ltd. In addition, Tokio Ltd sent one of its employees to assist in supervising the placement of materials for a period of two months.

Another company from Japan, Nanyo Ltd was awarded a supervisory contract that includes the provision of technical support and advice. A team of personnel from Nanyo Ltd were in Malaysia to provide the service. The team commenced their work in January 2005 and remained in Malaysia until 30 September 2005. Monthly supervision fees were made to the bank account of Nanyo Ltd in Japan.

A special machine was leased to build a cascading waterfall in the park. The lease rental payment was paid by the State Government to a company in Hong Kong.

Japan has a double taxation agreement with Malaysia whereas Hong Kong does not have any.

**Required:**

Advise on the Malaysian tax implications in respect of the following:

- (i) income derived by Tokio Ltd from the supply of the landscape materials.
- (ii) employment income of the employee of Tokio Ltd for the two months spent in Malaysia.
- (iii) income derived by Nanyo Ltd from the supervisory fees.
- (iv) employment income derived by Nanyo Ltd's employees from the exercise of employment in Malaysia.
- (v) lease rental income derived by the company based in Hong Kong.
- (vi) which rate should be adopted if the rate of withholding tax is in conflict with the rate stipulated in a double taxation agreement?

(10 marks)

- (b) Bacok Sdn Bhd, a company resident in Malaysia set up a factory in Kelantan. The company had been granted pioneer status on 1 January 2002 and closes its accounts to 31 December each year. The company has incurred capital expenditure on the construction of roads in 2005.

**Required:**

- (i) Is Bacok Sdn Bhd eligible to apply for Infrastructure Allowance? State your reasons.
- (ii) Regardless of the answer in (i) above, identify the year of assessment in which the company is eligible to claim the Infrastructure Allowance. Support your answer with reasons.
- (iii) State the rate and the manner in which the Infrastructure Allowance will be granted to a company.

(5 marks)

**(Total: 15 marks)**

**END OF QUESTION PAPER**