

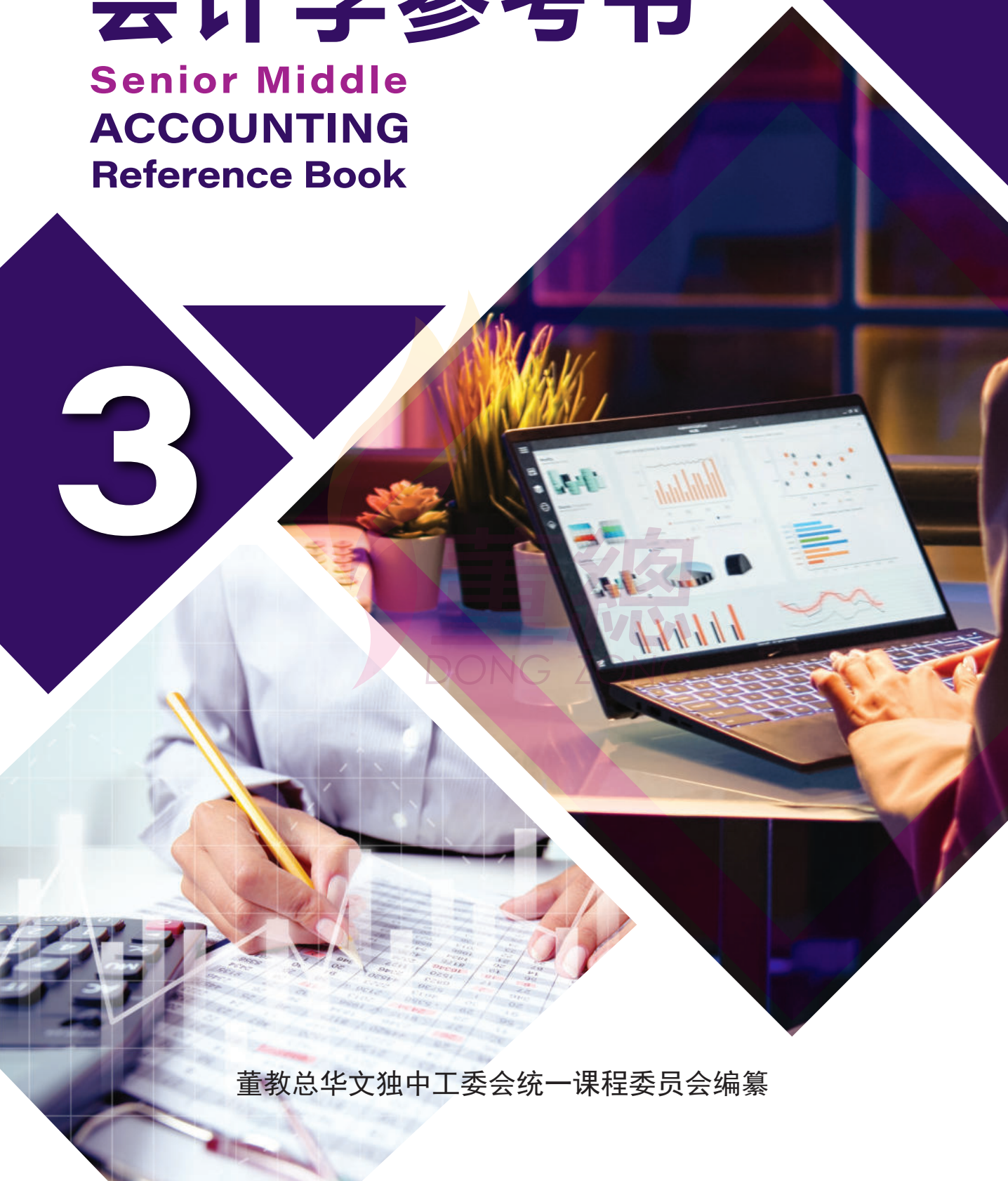


高中适用

会计学参考书

Senior Middle
ACCOUNTING
Reference Book

3



董教总华文独中工委会统一课程委员会编纂

独中教育 核心素养图



Senior Middle

Accounting Reference Book 3

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董教总华文独中工委统一课程委员会 启
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Unified Curriculum Committee of MICSS Working Committee
October 2025

编辑说明

1

本参考书是根据马来西亚董教总华文独中工委统一课程委员会所拟定的《会计学课程标准》以及国际财务报告准则（International Financial Reporting Standard）的会计原则和标准编写。

2

本参考书的宗旨是通过培养学生拥有处理财务记录和编制财务报表的知识和技能，并了解会计对企业管理和商务决策的重要性以贯彻独中教育蓝图的“乐教爱学，成就孩子”这目标。

3

本参考书共有三册，其涵盖范围：

第一册 - 以通用会计基本概念和准则为基础的商业簿记学。

第二册 - 制定财务报表的准则、会计记录错误的调整、存货估值法以及非法人企业（unincorporated）财务报表的编制。

第三册 - 有限公司财务报表的编制，使用会计比率分析企业财务业绩，以及预算编制和盈亏平衡分析等管理会计知识和技能。

4

采用平衡方式编写会计的基本原则和概念，包括了每章均采用分步解说、示例和练习题。除此之外，每章的最后有不同类型的测验题供学生课堂讨论。

5

为了让学生把握学习重点、启发思考、延伸学习、培养自学能力和增进学习效果，各章设有：

Input 作为提醒和增强知识。

Hint 让老师与学生在课堂上进一步讨论和探索要点和领域。

6

本书的示例都有示范答案。除了参考书的练习题，学生也可以使用马来西亚董教总华文独中工委统一课程委员会出版的作业簿来巩固学习。

7

本书各章都有：

Chapter Summary 以双语式呈现章节摘要。

此外，三册书籍也提供常用的：

中英文常用词汇对照表 以提升学生对会计中英文专业术语的掌握能力。

8

本参考书如有错误、遗漏或欠妥善之处，请不吝指教，电邮至 accounting@dongzong.my，以供再版修订参考。

董教总华文独中工委统一课程委员会

《会计学参考书》编审团队

2025年10月



Preface

1

The Accounting Reference Books (The Book) are divided into 3 books. The contents of these books are based on the Curriculum Standards that is compiled by the Unified Curriculum Committee of Malaysian Independent Chinese Secondary School (MICSS) Working Committee and is in compliance with the accounting principles and standards that are stipulated by the International Financial Reporting Standards (IFRS).

2

The rationale adopted in all levels of the book is driven by the aim of implementing the vision of 'Enjoy teaching, love learning - empower children to attain achievement' raised in the MICSS Education Blueprint. The book reflect the importance of business acumen in dealing with maintaining financial records that served as a basis for business decisions and management.

3

Book 1 mainly cover the fundamentals of bookkeeping practice in business organisations based on commonly adopted accounting principles and concepts.

Whereas, Book 2 cover financial reporting principles, accounting adjustments for errors, valuation of inventories as well as preparing financial statements for unincorporated organisations.

Last but not least, Book 3 focus on preparation of financial statements for limited company, analysing financial performance with accounting ratios as well as managerial accounting techniques like budgeting and break-even analysis.

4

The book adopted a balanced approach in elaborating fundamental accounting knowledge and technical skills with step-by-step explanation, illustrative examples and practice questions in each chapter. In addition to that, different style of quizzes is available at the end of each chapter for classroom discussion.

5

In most chapters of all 3 levels of the book, there will also contain:

Input

Additional reminders and enhanced knowledge.

Hint

Points and areas for further discussions and exploration in class.

6

The model answers of each example is shown alongside with the examples, whereas the model answers for each practice question will be available for access at www.elearning.dongzong.my under subject named 'Accounting'. In addition to these practice questions, there will be more practice questions for most chapters that found in the official practice workbook that published by Unified Curriculum Committee of Malaysian Independent Chinese Secondary School (MICSS) Working Committee.

7

At the end of each chapter, it has:

Chapter Summary

A key takeaway on the highlights as well as references for technical terminology in Chinese language.

At the end of each level of the book, it also has:

Glossary

Listing of English — Chinese common use terminologies.

8

We welcome any feedback from teachers and readers in helping to improve future editions of the series. We can be reached at accounting@dongzong.my

Unified Curriculum Committee of MICSS Working Committee
Accounting Reference Book Editorial Board
October 2025

Overview of Accounting

会计学大纲

The key contents of Book 1, 2 and 3 of **Accounting** are shown in an integrated diagram as below:
 以下综合图是会计学第一，二及三册的主要内容框架：



- Key contents of Accounting — Book 1
- Key contents of Accounting — Book 2
- Key contents of Accounting — Book 3

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Preparation of financial statements for limited company – Introduction

Learning Outcome

Upon completing this chapter, you should be able to:

- Understand the characteristics of:
 - a. Limited liability company
 - b. Unlimited liability company
- Understand the advantages and disadvantages of limited liability company.
- Understand the roles of Constitution (formerly Memorandum & Articles of Association).
- Understand the characteristics of different types of capital:
 - a. Ordinary share capital
 - b. Preference share capital
 - c. Loan notes / Debentures

Synopsis

- Both limited liability company and unlimited liability company are a form of incorporated business entity which both can either be unlisted or listed.
- Despite its limitations, it is common to incorporate a limited liability company (the company) when a business is planning to expand its scale of operation.
- Given the involvement of both internal and external parties that related to the company, the Constitution (formerly Memorandum & Articles of Association) of the company is served to promote transparency and accountability alongside in the course of business operation.
- While all types of limited liability companies may raise its required share capital by issuing ordinary shares and preference shares, it may also be able to raise long term debt finance (financial liabilities) by taking up bank loan or / and issuing loan notes / debentures (only for publicly listed companies).

23.1 Characteristics of limited liability and unlimited liability company

- As discussed in **Chapter 1**, apart from unincorporated business entities like sole proprietorship and partnership, it is common that businesses with larger scale of operation will be incorporated as a company. The formation of both unincorporated and incorporated businesses requires registration with the Companies Commission of Malaysia (Suruhanjaya Syarikat Malaysia - SSM).
- All incorporated companies in Malaysia are regulated under the Companies Act 2016 which governed by the SSM.
- In accordance to the Companies Act 2016, there are at least two types of company each of which has certain characteristics as listed below:

Key unique features: (Differences)	a. Limited liability company	b. Unlimited liability company
<ul style="list-style-type: none"> Shareholders' liability should the company found to be failed to settle the debts fully and declare bankrupt 	<p>The maximum loss of each shareholder is restricted to the amount invested in the ordinary shares.</p> <p>i.e. Shareholders' liability is limited to the invested shares.</p>	<p>The maximum loss of each shareholder is NOT restricted to the amount invested in the ordinary shares, instead shareholders will be personally liable to any outstanding debts.</p>
<ul style="list-style-type: none"> Name of company 	<p>For PRIVATE limited (liability) company: XXX Sendirian Berhad or XXX Sdn. Bhd.</p> <p>For PUBLIC limited (liability) company: XXX Berhad or XXX Bhd.</p>	<p>For PRIVATE unlimited (liability) company: XXX Sendirian or XXX Sdn.</p>
<ul style="list-style-type: none"> Listing to stock market 	<p>Only public limited company that fulfil all listing requirements may be listed in the stock market (i.e. public listed company).</p>	<p>No.</p>

Common features: (Similarities)	<ul style="list-style-type: none"> • It is a separate legal entity from the owners which are all the ordinary shareholders. • It can either be a private company or public company. However, public company are mostly limited liability company.
------------------------------------	---

IMPORTANT:

In the syllabus of 'Accounting', preparation of financial statements for incorporated businesses will only be focused for limited liability company that to be discussed in **Chapter 23 to 26.**

23.2 Advantages and disadvantages of limited liability company

1. The popularity of limited liability company (the company) that appear to be the most common type of business entity as compared to unincorporated businesses are mainly explained by the key features as mentioned in Section 23.1, item 3 which serves as its main advantages. However, these features may also give rise to some limitations or disadvantages of such business entity as below:

Key features	Advantages of the key features	Disadvantages of the key features
<ul style="list-style-type: none"> • Separate legal entity 	Shareholders will be excluded from all legal responsibilities of the company as it will be confined only within the company.	As shareholders are excluded from such legal responsibilities, hence, they may not be keen to put pressure onto the management to fully accountable for any legal consequences.
<ul style="list-style-type: none"> • Limited liability for shareholders 	It protects the shareholders' interest by restricting its maximum loss to the investment in its ordinary shares.	The company may be required by some creditors and lender to provide collaterals before offering any credit terms to them.

<ul style="list-style-type: none"> Private or public limited company 	<p>For PRIVATE limited company: The ownership and control of the company are kept within the close member of owners.</p> <p>For PUBLIC limited company: It is able to reach out to larger number of shareholders for raising more finances.</p> <p>Both private and public limited company may provide a higher confidence level to all related parties of the company (e.g. staffs, customers, investors, government, public and etc) as compare to unincorporated businesses.</p>	<p>Given the higher requirements to comply with ranges of laws and regulations such as:</p> <ul style="list-style-type: none"> - The Companies Act 2016 - Adoption of IFRSs for financial reporting - Etc <p>both private and public limited company will generally be incurred higher amount of:</p> <ul style="list-style-type: none"> - Incorporation costs - Legal compliance costs - Reporting costs - Other related costs <p>As for company that is planning for listing, there will be additional costs like listing costs and issue costs and alongside with a much higher amount on all the abovementioned costs.</p>
<ul style="list-style-type: none"> Listing to stock market (only for public listed company) 	<p>All benefits and advantages of a public limited company as mentioned above will be escalating to a much higher level once it become a listed company.</p>	



Hint

Why is public listed company important to the economic growth of a country?

23.3 Roles of Constitution (formerly Memorandum & Articles of Association)

1. Given the involvement of greater range of related parties, it is important for all limited liability companies to practice a good governance in managing the business in order to provide the confident to these parties.
2. Hence, the following documents are to be created and always adhered to by the company:

Based on Companies Act 1965 - Memorandum & Articles of Association

For companies that established under the Companies Act 1965, it is required to prepare the two documents as below:

- Memorandum of Association (MOA)
This document is the constitution of the company that reflecting its structure and it comprise of:
 - Name of the company
 - Registered office address
 - Company's objectives
 - Company's liability
 - Company's capital
 - Scope of operation
 - Etc
- Articles of Association (AOA)
This document is subordinate to the MOA which specifies rules and regulations for governing the company that include:
 - Rules and regulations for the internal management and administration
 - Details of share capital
 - Background of directors (i.e. qualification, appointment, powers, duties, remuneration, etc)
 - Company's dividend and reserves policy
 - Financial reporting and audit
 - Guidelines on company's borrowing powers
 - Guidelines on meetings
 - Etc

Based on Companies Act 2016 - Constitution

For companies that established under the Companies Act 2016, it is no longer required to prepare both MOA and AOA, instead it is replaced by Constitution.

Even though, it is no longer a compulsory requirement for limited liability companies to prepare a Constitution, it is recommended to have one for limited liability companies, especially the public listed company. This is because it outlines the relationships between the company and each of its members, directors and the company secretary.

A Constitution of a limited liability company contain and reflect:

- Principal activities
- Power, responsibilities, roles of directors
- Allotment / transfer of shares
- Appointment / re-election / removal of directors
- Dividend payment
- Conduct of meetings
- Etc



The content of Constitution is indeed the combination of both MOA and AOA.

3. The characteristics of the Memorandum & Articles of Association and the Constitution are hence summarised as below:

Key characteristics	Memorandum & Articles of Association	Constitution
• Which companies act applied?	- Companies Act 1965	- Companies Act 2016
What does it tell?	For: Memorandum of Association - Company structure For: Articles of Association - Rules and regulations for governing the company	- Relationships between the company and each of its members, directors and the company secretary

<ul style="list-style-type: none"> • What is in it? 	<p>For: Memorandum of Association</p> <ul style="list-style-type: none"> - Name of the company - Registered office address - Company's objectives - Company's liability - Company's capital - Scope of operation - Etc <p>For: Articles of Association</p> <ul style="list-style-type: none"> - Rules and regulations for the internal management and administration - Details of share capital - Background of directors - Company's dividend and reserves policy - Financial reporting and audit - Guidelines on company's borrowing powers - Guidelines on meetings - Etc 	<ul style="list-style-type: none"> - Principal activities - Power, responsibilities, roles of directors - Allotment / transfer of shares - Appointment / re-election / removal of directors - Dividend payment - Conduct of meetings - Etc
--	---	---

4. It is worth noting that:
- Despite the presence of the Companies Act 2016, The MOA and AOA for companies that established under the Companies Act 1965 still remain applicable unless it is agreed to be abolished or replaced by newly drafted Constitution.
 - Should the company has no Constitution, all the rights, powers, duties and obligations of its directors and each member of the company shall be based on all that set out in the Companies Act 2016.

23.4 Characteristics of different types of capital

1. All businesses require finances to acquire all required assets in carrying out all type of business activities.
2. Apart from short term debt finances, most businesses rely heavily on long term finances for investing in non-current assets and part of current assets.
3. The long term finances which are also termed capital mainly comprise of:

- a. **Equity**

In a limited liability company, these are the finances that invested by the business owner which refer to ordinary shareholders. Equity finance mainly comprise of:

- **Share capital**

These are the external finances contributed by the investors (shareholders) whenever there is an issue of shares.

There are two types of shares issued by a limited liability company; **ordinary share** (it MUST BE issued upon incorporation) and **preference share** (it is NOT COMPULSORY to issue such share upon incorporation):

Ordinary share

- This is the share that all limited liability companies issued not only at the point of its incorporation but also possibly at the later stage of time for various type of purpose. The details of share issue will be further discussed in **Chapter 24**.
- Every unit of share issued (with or without share certificate) will carry a par / face / nominal value which can be denominated in ranges of value such as RM1, RM0.50 and etc.
- Ordinary shares are commonly issued either at par or above par value. Should the issue be made above par value, the excess is termed as **share premium**.
- Like any form of investments, ordinary shareholders of a limited liability company would expect to receive sharing of profit (after taxation) earned during the year in the form of **ordinary dividend** declared and paid.
- It is possible that, some limited liability companies, especially the listed company may declare dividend twice a year (sometimes more than that):

Interim dividend

This is the dividend declared out the mid-year profit and usually be paid before the end of the financial year.

Final dividend

This is the second round of dividend for the current financial year that proposed by the board member for approval at the earlier stage of next financial year when the complete set of financial statements is available. Hence, the final dividend will usually be remained unpaid until next financial year.

- However, decision on distribution of dividend and the amount of dividend to be paid is much dependent on the profitability and sustainable performance of the company and decision made by the Board of Director.
- It is important to note that, the profit that is available for dividend distribution for ordinary shareholders should be after all other payments and distribution to other investors such as preference shareholders and lenders.
- Being the legal owner of the limited liability company, even though ordinary shareholders are the last party to entitle for the claims on profit, they have voting rights during the Annual General Meeting (AGM) in not only the appointment of members to form the Board of Directors but also agreeing on agendas in the resolution of the meeting.

Preference share

- This is the share that limited liability companies may issue not only at the point of its incorporation but also possibly at the later stage of time that mainly served for raising long term finances. The details of share issue will be further discussed in **Chapter 24**.
- Every unit of share issued (with or without share certificate) will carry a par / face / nominal value which can be denominated in ranges of value such as RM1, RM0.50 and etc.
- Preference shares are commonly issued either at par or above par value. Should the issue be made above par value, the excess is termed as **share premium**.
- There are two main classes of preference share:

Irredeemable preference share (IPS)

All irredeemable preference shares issued by the company will not be redeemed in the future.

Hence, such share capital carried similar characteristic as ordinary share capital which both will be classified as equity. These shares are usually be issued at or above par value.

Redeemable preference share (RPS)

All redeemable preference shares issued by the company will be redeemed in the future at par value or above par value.

Hence, such share capital carried similar characteristic as all other forms of borrowing and will be classified as long term debts / non-current liabilities / financial liabilities. These shares are usually be issued at par value.

- Like any form of investments, preference shareholders of a limited liability company would expect to receive sharing of profit (after taxation) earned during the year in the form of **preference dividend** declared and paid.
- The distribution of such dividend should come before ordinary dividend and transfer of any amount from retained earnings to other reserves.
- The amount of preference dividend per share is predetermined and fixed at the point of share issue which will be stated clearly on the share certificate. Hence, it is a fixed dividend to be declared and paid by the company in a year should the company is financially fit to declare dividend.
- There are two different types of right in the claim of preference dividend that will state clearly in the share certificate:

Non-Cumulative

Should the company be financially unfit to declare any dividend, the outstanding preference dividend for the year will be written off.

Such non-cumulative feature is commonly found in irredeemable preference share to reflect the characteristic of equity.

Cumulative

However, under the similar situation as above, the outstanding preference dividend for the year will be carried forward to the future until it is fully paid.

Such cumulative feature is commonly found in redeemable preference share to reflect the characteristic of long term debts.

- Despite various classes and rights, preference shareholders are not the legal owner of the limited liability company. Hence, they have no voting rights during the Annual General Meeting (AGM) in not only the appointment of members to form the Board of Directors but also agreeing on agendas in the resolution of the meeting.

Input

Classes and rights on the claim of dividend for preference share of a company are found in its Constitution.

IMPORTANT:

- Despite the differences in class and classification of preference share, it is a common practice that all preference share capital will be treated as **long term debts / non-current liabilities / financial liabilities** mainly due to its fixed commitment on dividend especially when it comes to analysis of accounting ratios that to be discussed in **Chapter 27**.

- Accounting treatment and presentation for issue and redemption of preference shares will be in accordance to IAS 32 and IFRS 9. As mentioned in **Chapter 21** that both standards are beyond the syllabus of 'Accounting', hence in the syllabus of 'Accounting', all preference shares will only be issued and redeemed **at par value** to ensure no significant impact from these standards.

The characteristics of both types of shares are hence summarised as below:

Key characteristics	Ordinary share	Preference share
<ul style="list-style-type: none"> Purposes of share issue 	<ul style="list-style-type: none"> Raising required finances Others (to be discussed in Chapter 24) 	<ul style="list-style-type: none"> Raising required finances
<ul style="list-style-type: none"> Classes of share issued 	All ordinary shares issued will be of the same class unless the Constitution state otherwise.	There are two main classes of preference share: <ul style="list-style-type: none"> IPS RPS
<ul style="list-style-type: none"> Issue price of the share 	It can be issued: <ul style="list-style-type: none"> At par value, or Above par value (i.e. at premium) 	It can be issued: <ul style="list-style-type: none"> At par value (for both IPS, RPS)Or Above par value (mainly for IPS)
<ul style="list-style-type: none"> Nature of the share capital / finances 	Both the <ul style="list-style-type: none"> Par value, and Share premium are classified as equity.	For IPS: Both the <ul style="list-style-type: none"> Par value, and Share premium are classified as equity. For RPS: The <ul style="list-style-type: none"> Par value are classified as long term debts / non-current liabilities / financial liabilities.

<ul style="list-style-type: none"> Distribution of dividend 	<p>There is no fixed commitment to declare and distribute any dividend (#1).</p> <p>There may be two times of dividend distribution in a financial year: Interim dividend and Final dividend</p>	<p>There will be a fixed commitment to declare and distribute preference dividend based on the predetermined dividend rate per share (#1).</p> <p>Preference dividend can be:</p> <ul style="list-style-type: none"> Non-cumulative (mainly for IPS) Cumulative (mainly for RPS)
<ul style="list-style-type: none"> Priority of dividend 	<p>The entitlement and claim of ordinary dividend come after all other distribution.</p>	<p>The entitlement and claim of preference dividend come after all other finance costs but before ordinary dividend and transfer of any amount from retained earnings to other reserves.</p>
<ul style="list-style-type: none"> Voting right 	<p>Shareholders will have voting right.</p>	<p>Shareholders will NOT have voting right.</p>

(#1):

The dividend per share can be expressed in one of the following manners:
RM xx per share or X % of par value.

IMPORTANT:

- Unless otherwise stated, preference share capital in the syllabus of 'Accounting' are considered as IPS.

Example 1

Norman Bhd has the following share capital in issue as below:

- 2,000,000 ordinary shares of RM1.00 each
- 1,500,000 7% preference shares of RM0.50 each

The dividends for both types of share capital for the current year are as follow:

Interim ordinary dividend declared and paid:	2%
Proposed final ordinary dividend:	6%
Preference dividend paid:	7%

You are required to derive the following values as show in the table below:

Types of dividends	Dividend per share	Dividend for the year
Interim ordinary dividend		
Proposed final ordinary dividend		
Preference dividend		

■ Solution to example 1

Types of dividends	Dividend per share	Dividend for the year
Interim ordinary dividend	2% x RM1 = RM0.02	RM0.02 X 2,000,000 = RM40,000
Proposed final ordinary dividend	6% x RM1 = RM0.06	RM0.06 X 2,000,000 = RM120,000
Preference dividend	7% x RM0.50 = RM0.035	RM0.035 X 1,500,000 = RM52,500

- **Reserves**

Generally, reserves can be seen as 'savings' of a limited liability company which are all belong to ordinary shareholders.

Usually, savings will only be created for a specific purpose, hence each type of reserve created are required to be classified separately to cater for different needs.

There are two broad types of reserves created in a limited liability company:

Statutory / Capital reserves

- These are the savings created by law (e.g. Companies Act 2016, etc).
- The fund in each of these reserves can only be applied according to its specific use by law in order to maintain the pool of equity finance in the company.
- Hence statutory / capital reserves CANNOT be used for dividend distribution.
- Such restriction is mainly to protect the interest of all lenders of the company, especially given the nature of limit liability of its ordinary shareholders.

- The types and limited uses of these reserves include:

Types of statutory / capital reserves	How is it being created?	What can the fund be 'used' for?
<ul style="list-style-type: none"> • Share premium 	<p>When ordinary or preference shares are issued at above its par value, the excess amount will be classified as share premium.</p>	<p><u>For ordinary shares:</u> It can be used for bonus issue.</p> <p><u>For redeemable preference shares:</u> It can be used for redemption of such preference shares ONLY IF it was issued at above its par value.</p> <p>Note: It is very rare to have such use as preference shares that issued at above par value are largely irredeemable as discussed above.</p>
<ul style="list-style-type: none"> • Revaluation reserve / Revaluation surplus 	<p>When there is an upward revaluation in the value of non-current assets such as land and property that disclosed in the financial statements, the excess amount as compare to the carrying amount (revaluation surplus) will be classified as revaluation reserve.</p>	<p>When the revalued non-current assets were disposed of during the year, the amount in this reserve can be 'used' by transferring to retained earnings.</p> <p>OR</p> <p>When there is a downward revaluation in the value of the same non-current asset, the shortfall amount as compare to the revalued carrying amount (revaluation loss) will be offset with this reserve.</p>

<ul style="list-style-type: none"> • Etc e.g. Capital redemption reserve 	<p>In a rare occasion where redeemable preference shares or loan notes / debentures were redeemed WITHOUT financed by issues of new shares, then an amount that equal to the par value of the preference shares or loan notes / debentures that to be redeemed will be transferred from retained earnings to a newly created reserve, namely capital redemption reserve.</p>
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IMPORTANT:

- Accounting entry for redemption of preference shares or loan notes / debentures and creation of capital redemption reserve account is beyond the syllabus of 'Accounting'.
- As part of the effort to simplify the laws and procedures that facilitate the growth of businesses, limited liabilities company that incorporated under the Companies Act 2016:
 - Are no longer required to have a par value for all share capital,
 - Hence there will be NO share premium regardless of the issue price

However, these corresponding accounting treatments is beyond the syllabus of 'Accounting'.

Non-statutory / Revenue reserves

- These are the savings that are not created by law, instead based on the company's discretion.
- All the non-statutory / revenue reserves are created mainly by transferring the fund from the retained earnings which is the main non-statutory reserve.
- Given the nature of non-statutory / revenue reserves, all funds can be used for dividend distribution, if the company wishes to do so.
- However, it is common that distribution of dividend is mainly from the retained earnings as the creation of other revenue reserves may cater for some other purposes for the long term benefit of the company.

- The types and uses of these reserves include:

Types of non-statutory / revenue reserves	How is it being created?	What can the fund be 'used' for?
<ul style="list-style-type: none"> • Retained earnings / Retained profit 	When not all the profit for the year are declared as dividend, the undistributed profit will be transferred retained earnings.	Distribution of dividend. OR / AND Set aside part of the fund to create other revenue reserves that cater for other use.
<ul style="list-style-type: none"> • Asset replacement reserve 	It represents the fund created by transferring from the retained earnings.	When company is planned to replace an existing non-current asset with a new one and do not wish to rely on external financing.
<ul style="list-style-type: none"> • Etc e.g. General reserve 	It is common for companies to set aside some retained earnings to cater for other use especially during the period of crisis, such as recession.	

b. **Long term debts / Non-current liabilities / Financial liabilities**

These are the finances that invested by the lenders of the business which mostly expected for a repayment on the maturity date which is more than one year from now.

For limited liability company, long term debts are mainly referring to:

- **Bank loan / term loan**

- This is the borrowing from financial institutions like banks or licensed finance company that come with a quoted interest rate and agreed repayment arrangement.
- The quoted interest rate of such loan will be based on a few key specific factors such as; interest rate policy of the country, size of borrowing, period of loan, creditability of the borrower and whether it is secured or unsecured against a specific asset.
- Like any forms of borrowing, bank loan / term loan will have interest payable on quarterly, half yearly or year basis.
- Loan that secured against a specific asset is also called mortgage loan where the lender (i.e. financial institutions) has a right to claim on the proceed from the sale of such asset to fully recover the loan principle and outstanding interest should the loan is default for payment.

- **Loan notes / debentures**

- It is the borrowing from all investors who subscribed to the loan notes / debentures that issued by the issuer which can only be a listed company.
- Loan notes / debentures will usually be issued in a form of loan note certificate where each of which denominated with a par / face / nominal value such as RM100, RM50 and etc.
- Even though loan notes / debentures can be issued either at par value, above par value (at premium) or below par value (at discount), it is common that most of it will only be issued either at par or below par value.
- There are two main types of loan notes / debentures that issued:

- Irredeemable loan notes (ILN)**

All investment in these loan notes will not be repaid and these certificates will continuously be traded in the stock market.

However, most irredeemable loan notes are indeed convertible loan notes, i.e. all certificates will be converted to become the ordinary share of the company on conversion date and all these long term debts will then turn to become ordinary share capital.

- Redeemable loan notes (RLN)**

All investment in these loan notes will be repaid on the maturity date and these certificates will be redeemed back by the issuing company at par value or above par value.

- Like any forms of borrowing, most loan notes / debentures will have interest payable to the loan notes holders that payable on quarterly, half yearly or year basis.
- The quoted interest rate which is also termed as coupon rate will be based on a few key specific factors such as; interest rate policy of the country, size of borrowing, period of loan, creditability of the issuer and whether it is secured or unsecured against a specific asset.

Input

All borrowing interest should be from profit before interest and tax as well as before any distribution of dividends.

The characteristics of both types of long term debts are hence summarised as below:

Key characteristics	Bank loan / term loan	Loan notes / debentures
<ul style="list-style-type: none"> Purposes of: Taking up bank loan / term loan Issuing loan notes / debentures 	<ul style="list-style-type: none"> Raising required finances 	<ul style="list-style-type: none"> Raising required finances
<ul style="list-style-type: none"> Structure (Type) 	<ul style="list-style-type: none"> Secured loan / mortgage loan Unsecured loan 	<ul style="list-style-type: none"> ILN (mostly convertible) RLN <p>Both can either be:</p> <ul style="list-style-type: none"> Secured, or Unsecured
<ul style="list-style-type: none"> Issue price 	-	It can be issued: At / above / below par value. But, it will mostly be issued at / below par value.
<ul style="list-style-type: none"> Repayment 	The bank loan / term loan will need to be repaid.	<p>For ILN (convertible or non-convertible): No repayment to be made</p> <p>For RLN: Repayment is to be made (repayment via redemption at / above par value)</p>
<ul style="list-style-type: none"> Nature of the finances 	Long term debts / Non-current liabilities / Financial liabilities	<p>For ILN: <u>Before conversion</u> Long term debts / Non-current liabilities / Financial liabilities</p> <p><u>After conversion</u> Equity</p> <p>For RLN: Long term debts / Non-current liabilities / Financial liabilities</p>
<ul style="list-style-type: none"> Payment of interest 	Bank loan / term loan interest are payable quarterly, half yearly or yearly basis.	Loan notes / debentures interest are payable quarterly, half yearly or yearly basis (#2).

(#2):

Loan notes / debentures interest = Coupon rate X Par value.

IMPORTANT:

Accounting treatment and presentation for issue and redemption of loan notes / debentures will be in accordance to IAS 32 and IFRS 9. As mentioned in **Chapter 21** that both standards are beyond the syllabus of 'Accounting', hence in the syllabus of 'Accounting', all loan notes / debentures will only be issued and redeemed **at par value** to ensure no significant impact from these standards.

Example 2

Norman Bhd has issued RM3,500,000 5% 10 years loan notes on 30 September Year 4 at par. Each loan note certificate has a par value of RM100. The financial year end of the company is on 31 December.

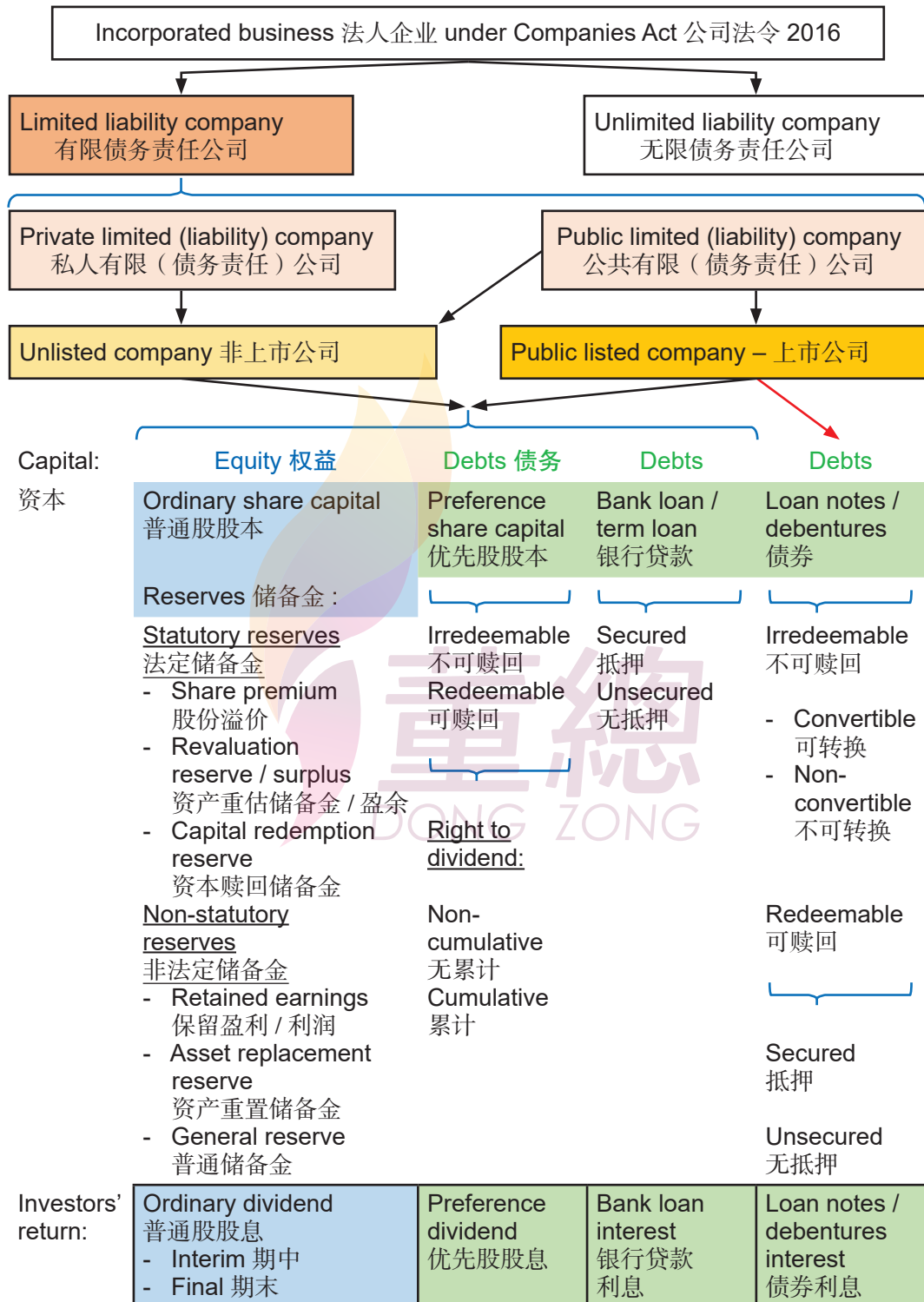
You are required to derive the following values as show in the table below for both financial years ended on 31 December:

Loan notes interest per certificate		
<u>Financial year ended 31 December</u>	Year 4	Year 5
Loan notes interest for the year		

Solution to example 2

Loan notes interest per certificate	5% x RM100 = RM5	
<u>Financial year ended 31 December</u>	Year 4	Year 5
Loan notes interest for the year	5% x RM3,500,000 x 3/12 = RM43,750	5% x RM3,500,000 = RM175,000

Chapter Summary



Quiz

- 1 Which of the following is highly recommended to be created when a limited liability company is incorporated under the Companies Act 2016?
 - A Memorandum of Association
 - B Articles of Association
 - C Constitution
 - D All of the above
- 2 Which of the following reserves may NOT be used for distribution of ordinary dividend?
 - A Share premium
 - B Retained earnings
 - C General reserve
 - D Plant replacement reserve
- 3 TBC Sdn Bhd is planning to raise RM6,500,000 for its planned investment in a new production facility. Which of the following long term finance is not applicable for the purpose?
 - A Taking up a secured bank loan
 - B Issuance of ordinary share
 - C Issuance of redeemable preference share
 - D Issuance of unsecured loan notes
- 4 Cyber Bhd is planning to issue 2,000,000 ordinary shares of RM1 each at the issue price of RM1.40 per share.

What is the total amount of par value and share premium?

Par value	Share premium
A RM800,000	RM2,000,000
B RM800,000	RM2,800,000
C RM2,000,000	RM800,000
D RM2,800,000	RM800,000

- 5 Digit Bhd had issued 3,000,000 ordinary shares of RM1 each at a premium of RM0.30 per share when it went for listing few years ago. Its board of directors has agreed to declare two dividend distribution for its current financial year ended 30 November Year 5; 3% interim dividend (paid on 30 July Year 5) and 4% proposed final dividend.

What is the total amount of ordinary dividend paid and ordinary dividend for the year?

Ordinary dividend paid	Ordinary dividend for the year
A RM210,000	RM210,000
B RM90,000	RM210,000
C RM273,000	RM273,000
D RM117,000	RM273,000

- 6 Which of the following sequence order in showing the priority of claims to the reported profit of a limited liability company is correct?

- A Loan notes holders → Irredeemable preference shareholders → Redeemable preference shareholders → Ordinary shareholders
 B Loan notes holders → Redeemable preference shareholders → Irredeemable preference shareholders → Ordinary shareholders
 C Loan notes holders → Redeemable preference shareholders → Ordinary shareholders → Irredeemable preference shareholders
 D Irredeemable preference shareholders → Loan notes holders → Redeemable preference shareholders → Ordinary shareholders

- 7 Maxi Bhd had issued RM4,000,000 6% loan notes at par few years ago to finance one of its business expansion projects. Each loan note certificate carries a par value of RM100.

What is the amount loan notes interest for the current year in total and for each loan note certificate?

Loan notes interest	Loan notes interest / certificate
A RM240,000	RM6
B RM240,000	RM2,400
C RM24,000	RM240
D RM600	RM6



Answer guide to Quiz

1 C 2 A 3 D 4 C 5 B (W1) 6 B 7 A

Workings:

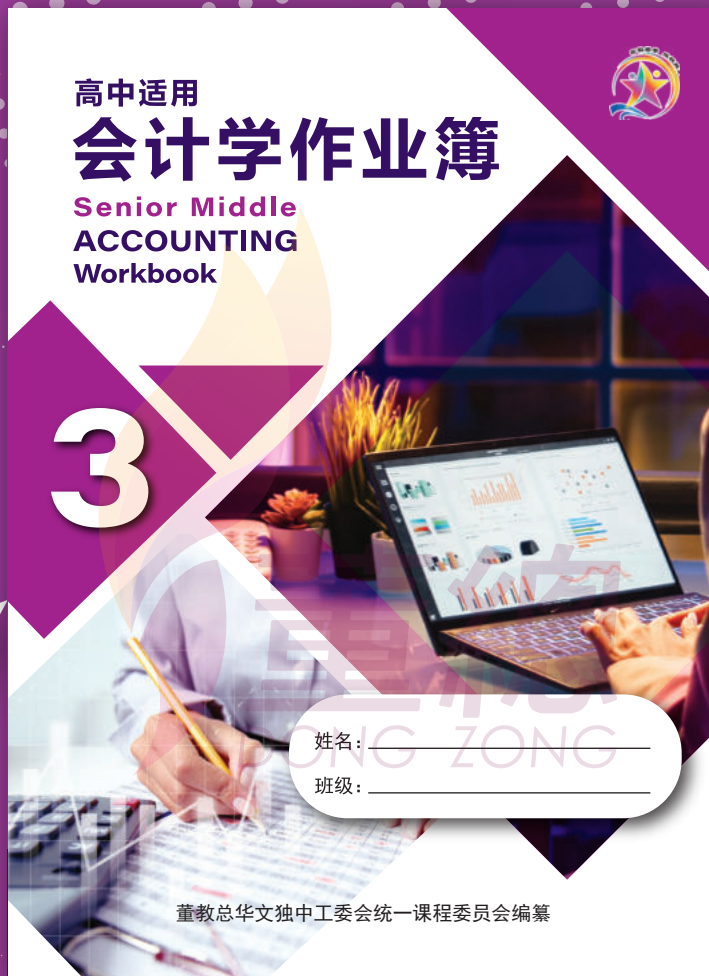
(W1)

Ordinary dividend paid = Interim dividend
= 3% x RM1/share x 3,000,000 shares
= RM90,000

Ordinary dividend for the year = Interim dividend + Proposed final dividend
= RM90,000 + (4% x RM1/share x 3,000,000 shares)
= RM90,000 + RM120,000
= RM210,000



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