

**INSTITUTE OF BANKERS IN MALAWI**

**CERTIFICATE IN BANKING EXAMINATION**

**SUBJECT: INTRODUCTION TO BUSINESS ACCOUNTING**

**(IOBM – C101)**

**Date: Monday, 15th May 2017**

**Time Allocated: 3 hours (08:00 – 11:00 Hours)**

**INSTRUCTIONS TO CANDIDATES**

1 This paper consists of **TWO** Sections, A and B.

2 Section A consists of 20 multiple questions, each question carries 2 marks.

Answer **ALL** questions.

3 Section B consists of 5 questions, each question carries 20 marks. Answer **ANY THREE** questions.

4 You will be allowed **10 minutes** to go through the paper before the start of the examination when you may write on this paper but not in the answer book.

5 Begin each answer on a new page.

6 **Please write your examination number on each answer book used. All answer books without examination number will not be marked.**

7 All persons writing examinations without payment will risk expulsion from the Institute.

8 If you are caught cheating, you will be automatically disqualified in all subjects seated this semester

9 DO NOT open this question paper until instructed to do so.

**SECTION A (40 MARKS)**

Answer **ALL** questions from this section.

1. An entity’s transactions are recorded first in:
2. Books of Original entry
3. Ledger Accounts
4. The Income Statement
5. The Statement of Financial Position
6. Liability for the debts of the business does not fall on:
7. A Sole Trader
8. Partners in General Partnership
9. A Limited Company
10. Owners of a Limited Liability Company
11. A Statement of Financial Position is best described as:
12. A snapshot of the entity’s financial position at a particular point in time
13. A record of an entity’s financial performance over a period of time.
14. A list of all the income and expenses of the entity at a particular point in time.
15. A list of all assets and liabilities of the entity over a period of time.
16. In applying fundamental accounting concepts the preparers of financial information are also using:
17. Legislation
18. Accounting Standards
19. Judgement
20. Financial Reporting Standards
21. Accounting for transaction’s economic substance rather than its strick legal form is a feature of:
22. Relevance
23. Understandability
24. Reliability
25. Comparability
26. Which of the following is an item of capital expenditure?
27. Cost of Goods Sold
28. Purchase of Machine
29. Repair of a Machine
30. Wage Cost
31. As at 31December 2016 Justice Plc.’s Trial balances failed to balance and a suspense account was opened. When the following errors were discovered and the rectified, the suspense account balance was eliminated.
32. The debit side of the Trial Balance was undercast by MK 692.
33. A cheque payment of MK 905 had been credited in the Cash Book but no other entry in respect of it had been made.

What was the original balance on the Suspense Account?

1. MK 1,597 Debit
2. MK 213 Credit
3. MK 1,597 Credit
4. MK 213 Credit
5. Dedza Plc. Is preparing its Financial Statements for the year ended 30th April 2016, having prepared an initial Trial Balance. Purchases in the period were MK 686,880. Inventories were valued at MK 18,081 on 1st May 2015, and at MK 18,647 on 30th April 2016. In Dedza Plc.’s Income Statement for the year ended 30th April 2016 the figure for cost of sales will be:
6. MK 686,314
7. MK 686,880
8. MK 687,446
9. MK 723,608
10. Madro had net assets of MK 350,000 at 1 January 2016, and these grew by MK 225,000 in the year. He took drawings of MK 140,000 and made a net profit of MK 239,000. How much capital did Madro inject in the year?
11. MK 99,000
12. MK 674,000
13. MK 126,000
14. MK 1,024,000
15. Which of the following descriptions of the going concern assumption is the one used in IAS 1 (Revised) Presentation of Financial Statements?
16. Management does not intend to liquidate the entity nor cease trading.
17. The entity is able to pay its debts as and when they fall due.
18. The directors expect the entity’s assets to yield future economic benefits.
19. Financial statements have been prepared on the assumption that the entity is solvent and would be able to pay all creditors in full in the event of being wound up.
20. Dalitso Banda paid MK 2,500 for gas during the reporting period. At the beginning of the period she owed Mk 500 and at the end she owed MK 1,000. What charge should have appeared in his Income Statement for that reporting period?
21. MK 2,000
22. MK 2,500
23. MK 3,000
24. MK 3,500
25. A firm made the following rent payments :
26. Mk 9,000 for six months ended 31st March 2016
27. Mk 12,000 for six months ended 30th September 2016
28. MK 11,196 for twelve months ending 30th September 2017

What was the charge to the Income Statement for the 12 Month reporting period ending 31st December 2016

1. MK 13,299
2. MK 19,299
3. Mk 24,897
4. MK 22,098
5. Job purchases goods on credit from Sadzi Limited for MK 240,000. What is the correct double entry?

**Debit Credit**

1. Purchases Payables
2. Purchases Receivables
3. Payables Purchases
4. Payables Cash
5. Candy returned some goods to a supplier because they were faulty. The original purchase price of these goods was MK 24,780. The Ledger clerk treated the return correctly on both the payables’ ledger control account and the individual payables’ account, but debited the purchase returns account with MK 25,860.

What is the correcting entry which needs to be made?

1. Suspense Account 1,080 Purchase Returns 1,080
2. Purchase Returns 1,080 Suspense Account 1,080
3. Suspense Account 50,640 Purchase Returns 50,640
4. Purchase Returns 50,640 Suspense Account 50,640
5. A business sells a van on 31st December 2016 which it bought on 1st January 2014 for MK 12.6 Million and has depreciated each year at 25% per annum by the straight line method. It trades this van in for a new one costing MK 21 Million, and pays the supplier MK 19.32 Million by cheque.

What is the profit or loss on disposal?

1. MK 1.47 Million loss
2. MK 1.68 Million Profit
3. MK 3.15 Million Profit
4. MK 3.15 Million loss
5. Your organization uses the weighted average cost method of valuing inventories. During September 2016, the following inventories details were recorded.
6. Opening balance 60 units valued at MK 2,800 each.
7. 6th September purchase of 100 units at MK 3,360 each
8. 9th September sale of 80 units
9. 12 September purchase of 120 units at MK 3,500 each.
10. 23rd September sale of 50 units.

Calculate the value of the inventories at 30 September 2016

1. MK 520,800
2. Mk 550,200
3. Mk 483,000
4. Mk 504,000
5. Which of the following would cause a change in the capital of a sole trader?
6. Depreciation of a non-current asset
7. Purchase of a non-current asset for cash
8. Purchase of a non-current asset on credit
9. Sale of non-current asset at carrying amount
10. Which of the errors would cause there to be a difference in the Trial Balance?
11. Amount posted to the wrong account.
12. Transaction correctly posted but with incorrect amount in both accounts.
13. Transaction entered on the debit side of both accounts.
14. Transaction not recorded at all.
15. Allot’s business had receivables of MK 210,000 at 1st January 2014 and Mk 189,000 at 31st December 2014. Credit sales amounted to Mk 1,659,000 and cash received from receivables was MK 1,617,000 and an irrecoverable debt of MK 21,000 was written off.

How much discount was allowed to customers during the year?

1. MK 84,000
2. MK 42,000
3. MK 147,000
4. MK 189,000
5. Which of the following are differences between Sole trader and Limited Liability Company?
6. A sole traders financial statement are private and never made available to third parties; companies Financial Statements are sent to shareholders and may be publicly filed.
7. Only companies have share capital.
8. A sole trader is fully and personally liable for any losses that the business might make.
9. Drawings would only appear in the financial statement of a sole trader.
10. i) and iv) only
11. ii), iii) and iv)
12. ii) and iii) only
13. i), iii) and iv)

**SECTION B (60 MARKS)**

Answer **ANY THREE** questions from this section

**Question 2**

James and Peter are in Partnership sharing profits and losses equally. The following is their Trial Balance as at 30th June 2016.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Dr** |  | **Cr** |
|  | **MK** |  | **MK** |
| Building ( Cost MK 750,000) | 500,000 |  |  |
| Furniture at cost | 110,000 |  |  |
| Provision for depreciation: Fixtures |  |  | 33,000 |
| Receivables | 162,430 |  |  |
| Payables |  |  | 111,500 |
| Cash at Bank | 6,770 |  |  |
| Inventory at 30 June 2015 | 419,790 |  |  |
| Sales |  |  | 1,236,500 |
| Purchases | 854,160 |  |  |
| Carriage Outwards | 12,880 |  |  |
| Discount Allowed | 1,150 |  |  |
| Loan Interest: Commercial bank | 40,000 |  |  |
| Office Expenses | 24,160 |  |  |
| Salaries and Wages | 189,170 |  |  |
| Bad Debts | 5,030 |  |  |
| Provision for Bad Debts |  |  | 4,000 |
| Loan from Commercial Bank |  |  | 400,000 |
| Capital Account: James |  |  | 350,000 |
| Pater |  |  | 295,000 |
| Current Account: James |  |  | 13,060 |
| Peter |  |  | 2,980 |
| Drawings: James | 64,000 |  |  |
| Peter | 56,500 |  |  |
|  | **2,446,040** |  | **2,446,040** |
|  |  |  |  |

The following information is also available:

1. Inventory at 30th June 2016 was MK 563,000
2. Expenses to be accrued: Office expenses MK 960, Wages MK 2,000
3. The depreciation charges for the year are as follows:

* Fixtures 10% Reducing balance basis
* Buildings MK 10,000

1. The provision for bad debts should be reduced to MK 3,200
2. The partnership salary of Mk 8,000 to James is not yet entered in the books.
3. The interests on capital are as follows:

* James MK 1,800
* Peter Mk 1,200

1. The interest on Capital Account balances is at 10% per annum.

**Required:**

1. Prepare the Income Statement and Profit and Loss Appropriation Account for the year ended 30th June 2016.  *(12 marks)*
2. Prepare the Statement of Financial Position as at 30th June 2016. *(8 marks)*

**(Total 20 marks)**

**QUESTION 3**

The Trial Balance for Joseph Nkuyu, a sole trader failed to balance. The debit side was MK 100,100 more that the credit side. The profit which has been determined by the owner before amending errors is MK 367,000. The owner has asked you to investigate. At the end of your exercise, you discover the following errors:

1. Discount received of MK 80,000 was debited to the discount allowed account.
2. Rent paid by cheque MK 30,000 was not posted from the Cash Book.
3. Motor vehicle repairs paid by cash MK 170,000 were recorded in the motor vehicle account.
4. Interest paid amounting to MK 40,000 was completely omitted from the Financial Statements.
5. Electricity paid amounting to MK 65,000 was recorded correctly in the cash book but the amount was entered as MK 56,000 in the electricity account.

**Required:**

1. Prepare the journal entries to correct the errors identified above.
2. Prepare a suspense account to clear the errors.
3. Prepare a statement to amend the profit balance for Joseph Nkuyu, a sole trader, after rectifying all the errors identified above.

**(Total 20 marks)**

**QUESTION 4**

The following Trial Balance was taken from the books of Mr. Nyirenda, a Sole Trader on 31st December 2016.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Dr** |  | **Cr** |
|  | **MK** |  | **MK** |
| Capital |  |  | 540,000 |
| Drawings | 124,560 |  |  |
| Sales |  |  | 445,659 |
| Purchases | 246,890 |  |  |
| Inventories (1st January 2016) | 23,445 |  |  |
| Buildings | 100,000 |  |  |
| Fixtures | 288,500 |  |  |
| Delivery Van | 32,000 |  |  |
| Provision for depreciation: Fixtures |  |  | 16,500 |
| Delivery Van |  |  | 6,800 |
| Rent | 18,000 |  |  |
| Heat and Light | 24,500 |  |  |
| Wages | 58,500 |  |  |
| Motor Expenses | 12,350 |  |  |
| Insurance | 15,600 |  |  |
| Bank | 6,240 |  |  |
| Cash | 664 |  |  |
| Loan - M E Mhango |  |  | 1,000 |
| Irrecoverable Debts | 450 |  |  |
| Allowances for Receivables |  |  | 560 |
| Trade Receivables | 85,000 |  |  |
| Trade payables |  |  | 18,960 |
| Discount Allowed | 240 |  |  |
| Discount Received |  |  | 460 |
|  | **1,036,939** |  | **1,029,939** |

The following information is also available:

1. Closing inventories have been valued at MK 26,430.
2. Mr Nyirenda has agreed to pay his friend, M E Mhango, 6% per year on the MK 10,000 he has borrowed. This has not been paid.
3. A payment of MK 6,000 for rent has been made in November 2016. This is for 3 months from 1st November 2016.
4. Estimated electricity expenses owing at end of year was MK 450.
5. Wages for last week in December 2016 amounting to MK 2,340 had not yet been paid.
6. Mr Nyirenda usually provides an allowance for receivables of 1% of the outstanding trade receivables at the end of the year.
7. Depreciation is to be charged as follows:

* Fixtures and Fittings at 10% on cost
* Delivery van at 20% using the reducing balance method.

**Required:**

1. Prepare an Income and Expenditure Statement for Mr Nyirenda for year ended 31st December 2016.  *(12 marks)*
2. Prepare the Statement of Financial Position of Mr Nyirenda as at 3st December 2016. *(8 marks)*

**(Total 20 marks)**

**QUESTION 5**

1. Mention **three** causes of Depreciation. *(3 marks)*
2. A manufacturer bought 3 machines on 1st January 2014. Each machine cost MK 200,000. The business normally provides depreciation at the rate of 20% per annum using reducing balance method. On 2nd January a second machine was acquired at MK 220,000 and on 30th June 2016, one of the machines which originally cost MK 200,000 was sold for MK 80,000 cash. A full year’s depreciation is charged in the year of acquisition and none is charged in the year of disposal.

**Requires:**

Prepare the following accounts for **each** of the three years ended 31st December 2014, 2015 and 2016 respectively.

1. Machinery Account *(3 marks)*
2. Provision for depreciation accounts *(4 marks)*
3. Asset disposal account *(3 marks)*
4. The owner of the business was not happy with the amounts of profit shown in his accounts. He feels if it were not for depreciation charge, his profit would have been higher. Explain to the owner giving **two** reasons why depreciation must be charged in his accounts. *(2 marks)*
5. Identify **five** items of data that would normally be recorded in a fixed asset register and state why each item is required. *(5 marks)*

**(Total 20 marks)**

**QUESTION 6**

The following analysis relates to the details of sales and purchase transactions for the month of September 2016 for a retailer trading in soft drinks.

* 1st September balance b/f 200 bottles at MK 120 each
* 3rd September bought 500 bottles at MK 120 each
* 5th September sold 400 bottles at MK 150 each
* 8th September bought 300 bottles MK 140 each
* 11 September bought 600 bottles at MK 152 each
* 15th September sold 700 bottles at MK 210 each
* 20th September bought 200 bottles at MK 160 each

**Requirements**

1. Calculate the value of inventory at the end of the month of September 2016 using:
2. First in First Out (FIFO) Method *(6 marks)*
3. Weighted Average Cost Method *(6 marks)*
4. Draw up a Trading Account using FIFO and Weighted Average Methods to show the gross profit for the month. *(8 marks)*

**(Total 20 marks)**

**END OF THE EXAMINATION PAPER**