

**INSTITUTE OF BANKERS IN MALAWI**

**CERTIFICATE IN BANKING EXAMINATION**

**SUBJECT: INTRODUCTION TO BUSINESS ACCOUNTING**

**(IOBM – C101)**

**Date: Monday, 23rd November 2020**

**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 by circling the right answers in the answer sheet provided.

1. In which statement do you calculate Gross Profit?
   1. Statement of Cash Flows
   2. Statement of Profit or Loss
   3. Statement of Changes in Equity
   4. Statement of Financial Position
2. Which of the following equations is not correct?
   1. Assets are equal to Capital plus Liabilities
   2. Capital is equal to Assets minus Liabilities
   3. Assets are equal to the sum of Opening Capital, Net Profit and Liabilities minus Drawings
   4. Assets are equal to the sum of Opening Capital, Drawings and Liabilities minus Net Loss
3. Writing off the cost of inventories is an application of which accounting concept?
   1. Going concern
   2. Materiality
   3. Prudence
   4. Substance over form
4. Which of the following items is both a book of original entry and part of the double entry system of accounting?
   1. Cash Book
   2. Sales Day Book
   3. Purchases Day Book
   4. Return Inwards Day Book
5. How are accrued expenses recorded in the Statement of Financial Position?
   1. As Current Assets
   2. As Capital
   3. As Drawings
   4. As Current Liabilities
6. Which of the following statements is correct?
   1. Irrecoverable debts increase receivables
   2. Irrecoverable debts increase profits
   3. Irrecoverable debts are recorded as expenses in the Statement of Profit or Loss
   4. Irrecoverable debts increase Capital
7. Profit or loss on disposal of a non-current asset equals:
   1. Assets minus liabilities
   2. Net Book Value (NBV) plus disposal proceeds
   3. Disposal proceeds plus accumulated minus the cost of the non-current asset
   4. Disposal proceeds minus accumulated depreciation.
8. Which of the following items appears on the bank reconciliation statement?
   1. Dishonored cheques
   2. Bank charges
   3. Bank interest
   4. Unpresented cheques
9. Painting of a new building would be accounted in the financial statements as:
10. An expense in the Statement of Profit or Loss
11. An asset being part of the newly painted building
12. A liability
13. Income in the Statement of Profit or Loss
14. Which of the following errors is an **error of commission**?
15. K100,000 received from a customer has not been recorded in the accounting books
16. K780,000 paid to Mr. Gondwe has been recorded in the cash book as K870,000
17. Credit sales made to Japheth Everton amounting to K970,000 have been captured in the account of Joseph Everton
18. Purchase of a motor vehicle has been recorded in the books as a motor vehicle insurance.
19. On which sides of the receivables and payables control accounts is a contra settlement transaction recorded?
20. Debit side (Receivables Control) and Credit Side (Payables Control)
21. Debit side (Payables Control) and Credit Side (Receivables Control)
22. Debit side (Receivables Control) and Debit Side (Payables Control)
23. Credit side (Receivables Control) and Credit Side (Payables Control)
24. Which of the following elements is not part of the regulatory framework for limited companies?
25. The Companies Act (2013)
26. Accounting standards
27. Accounting equation
28. Malawi Stock Exchange Listing rules
29. Which of the following asset will be presented first under the current asset section of the Statement of Financial Position?
    1. Cash at hand
    2. Trade receivables
    3. Inventories
    4. Other receivables
30. Which of the following item is not included in the Trial Balance?
31. Trade payables
32. Receivables
33. Closing inventories
34. Capital
35. When preparing an appropriation account for a partnership, interest on capital is:
36. Added to the net profit
37. Subtracted from the net profit
38. Credited to the appropriation account
39. Added to partners’ drawings
40. Which of the following measures is not part of the accounting controls?
41. Use of qualified personnel
42. Performance reports
43. Job rotation
44. Controlling access
45. When accounting for partnerships, where are partners’ drawings recorded?
46. Statement of Financial Position
47. Statement of Profit or Loss
48. Appropriation Account
49. Current Account
50. A business purchased a motor van on 1st January 2016 for K18 million. The vehicle had a useful life of 5 years and a residual value of K3 million. The business depreciates its non-current assets on straight line basis. The business sold the vehicle on 31 December 2018 for K12 million.

How much is the gain or loss on disposal?

1. Gain of K3 million
2. Gain of K6 million
3. Gain of K1.2 million
4. Loss of K3 million
5. A sole trader has a capital of K17 million on 1st January 2018. At the end of the year, assets and liabilities stood at K46 million and K21 million respectively. Drawings for the year amounted to K3 million.

Calculate the profit of the business for 2018:

1. K29 million
2. K28 million
3. K25 million
4. K5 million
5. A cash payment of K2 million to Mr. Phiri was entered on the receipt side of the cash book in error and credited to Mr. Phiri’s account.

Which of the following accounting entries depict the correction of the above error?

1. Dr Cash book K2 million, Cr Mr. Phiri K2 million
2. Dr Mr. Phiri K4 million, Cr Cash book K4 million
3. Dr Mr. Phiri K2 million, Cr Cash book K2 million
4. Dr Cash book K4 million, Cr Mr. Phiri K4 million

**SECTION B (60 MARKS)**

Answer **ANY THREE** questions from this section

**QUESTION 2**

1. Explain the difference between a partnership and a public limited company in terms of legal personality and liability for debts. (4 marks)
2. Bwande, Katakwe and Mandevu are trading in partnership under the name BwaKaMa Partnership. They share profits in the ratios of 5:3:2. You are given the following information for BwaKaMa Partnership for the year ended 31 December 2018. The following information is available:

|  |  |  |
| --- | --- | --- |
|  |  | **K** |
| 1 | **Net profit for the year** | 6,070,000 |
| 2 | **Capital accounts :** |  |
| Bwande | 8,000,000 |
| Katakwe | 6,000,000 |
| Mandevu | 3,600,000 |
| 3 | **Current Accounts Debit Balances (1 January 2018) :** |  |
| Bwande | 372,000 |
| Katakwe | 189,200 |
| Mandevu | 143,400 |
| 4 | **Salaries :** |  |
| Katakwe | 400,000 |
| Mandevu | 700,000 |
| 5 | **Interest on capital** |  |
| Bwande | 400,000 |
| Katakwe | 300,000 |
| Mandevu | 180,000 |
| 6 | **Interest on drawings** |  |
| Bwande | 48,000 |
| Katakwe | 36,000 |
| Mandevu | 26,000 |
| 7 | **Drawings** |  |
| Bwande | 1,840,000 |
| Katakwe | 1,420,000 |
| Mandevu | 1,380,000 |

**Required:**

1. Prepare the Profit and Loss Appropriation Account for BwaKaMa Partnership for the year ended 31 December 2018.  *(6 marks)*
2. Prepare the partners’ current as at 31 December 2018. *(10 marks)*

**(Total 20 marks)**

**QUESTION 3**

1. Explain why it is necessary to prepare a bank reconciliation statement at the end of a reporting period. *(2 marks)*
2. List any **five** items that may cause the cashbook balance and bank balance not to agree*. (5 marks)*
3. Uthiru operates a business in Ntcheu. The following information relates to the cashbook and bank statement transactions as at 31 December 2018:
   1. Overdrawn cashbook balance of K186,000.
   2. Interest of K6,200 on bank overdraft for the year ended 31 December 2018 debited to the bank account.
   3. Cheques issued to suppliers but not cashed by 31 December 2018 amounted to K77,500.
   4. Cheques received and deposited into the bank but not credited in the bank account amounted to K55,800.
   5. Interest on investments credited to the bank account amounted to K55,800.
   6. A cheque payment of K34,750 to a supplier was dishonored. As a result, the bank charged a penalty of K1,550 which was debited to the bank account on 31 December 2018.
   7. The receipts side of the cashbook was overcast by K31,000 in December 2018.
   8. The bank statement overdrawn balance at 31 December 2018 was K114,700.

**Required:**

Prepare a bank reconciliation statement for Uthiru as at 31 December 2018. *(13 marks)*

**(Total 20 marks)**

**QUESTION 4**

1. Define the term “trial balance”. *(2 marks)*
2. State any **four** aims of preparing a trial balance. *(4 marks)*

The following balances have been extracted from the ledgers of Mbambande Business at 31 December 2018:

|  |  |
| --- | --- |
|  | K |
| Capital | 1,170,000 |
| Inventories as at 1 January 2018 | 75,000 |
| Buildings | 690,000 |
| Furniture and fittings | 202,500 |
| Plant and machinery | 525,000 |
| Purchases | 1,183,500 |
| Sales | 1,959,300 |
| Discount received | 7,050 |
| Discount allowed | 8,100 |
| Carriage inwards | 1,800 |
| Carriage outwards | 3,450 |
| Return inwards | 22,500 |
| Return outwards | 5,700 |
| Wages and salaries | 186,000 |
| Rates and taxes | 20,550 |
| Rent received | 7,950 |
| Trade payables | 341,400 |
| Trade receivables | 510,000 |
| Drawings | 45,000 |
| Cash in hand | 18,000 |
| Closing inventories | 58,500 |

**Required:**

1. Prepare a trial balance as at 31 December 2018 for Mbambande. *(10 marks)*
2. Prepare a trading account for the year ended 31 December 2018. (*4 marks)*

(**Total 20 marks)**

**QUESTION 5**

The following balances have been extracted from the accounting records for Muthiga Trading as at 31 December 2018:

|  |  |
| --- | --- |
|  | K |
| Capital | 3,000,000 |
| Drawings | 465,000 |
| Warehouse | 1,500,000 |
| Machinery | 375,000 |
| Furniture and fittings | 90,000 |
| Inventories at 1 January 2018 | 1,875,000 |
| Tricycle | 90,000 |
| Purchases | 13,500,000 |
| Sales | 18,750,000 |
| Sales returns | 750,000 |
| Trade receivables | 1,500,000 |
| Trade payables | 1,125,000 |
| Allowance for irrecoverable debts | 60,000 |
| Cash at bank | 360,000 |
| Bank loan at 9% per annum | 750,000 |
| Salaries | 660,000 |
| Wages | 1,125,000 |
| Rent | 412,500 |
| Travel costs | 187,500 |
| Postage and telephone | 20,250 |
| Carriage inwards | 375,000 |
| Rates | 13,500 |
| Irrecoverable debts | 45,000 |
| Carriage outwards | 112,500 |
| Interest paid | 56,250 |
| General expenses | 135,000 |
| Cash at hand | 37,500 |

The following addition information is important for the preparation of financial statements:

1. Inventories at 31 December 2018 amounted to K2, 100,000
2. Expenses were accrued at 31 December 2018 as follows; salaries K60,000, rent K37,500, wages K90,000 and interest K11,250.
3. An allowance for irrecoverable debts should be at 5% on closing trade receivables balances.
4. Annual depreciation charges of non-current assets should be made as follows: warehouse 5%, machinery 10%, tricycle 10% and furniture and fittings 10%. The business uses the straight line method to depreciate its non-current assets.
5. The bank loan will be due for repayment during the year ending 31 December 2022.

**Required:**

1. Prepare the income statement for Muthiga Trading for the year ended 31 December 2018. *(12 marks)*

1. Prepare Muthiga’s statement of financial position as at 31 December 2018.

*(8 marks)*

**(Total 20 marks)**

**QUESTION 6**

1. List **five** differences between Financial Accounting and Management Accounting.

*(5 marks)*

1. Explain why the following use the financial statements:
   1. The Malawi Revenue Authority (*1 mark*)
   2. Owners of the business (*1 mark)*
   3. Management (*1 mark)*
   4. Banks (*1 mark)*
   5. Suppliers (*1 mark)*
2. Explain **five** elements which make up the regulatory framework for limited companies. *(10 marks)*

**(Total 20 marks)**

**END OF QUESTION PAPER**