

**INSTITUTE OF BANKERS IN MALAWI**

**CERTIFICATE IN BANKING EXAMINATION**

**SUBJECT: INTRODUCTION TO BUSINESS ACCOUNTING**

**(IOBM – C101)**

**Date: Wednesday, 11th November 2015**

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

**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.**

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. Financial Statements differ from Management Accounts in that they:
2. Are prepared Monthly for Internal Purposed
3. Contain details of Costs incurred in manufacturing
4. Are summarized and prepared mainly for external users of accounting information
5. Provide information to enable the Trial Balance to be prepared.
6. Which of the following statements gives the best definition of the objective of accounting
7. To provide useful information to users
8. To record, categorize and summarize financial transactions
9. To calculate the taxation due to the government
10. To Calculate the amount of dividend to pay to shareholders
11. The profit of a business may be calculated by using which of the following
12. Opening Capital minus Drawings plus Capital Introduced minus Closing Capital
13. Closing Capital plus Drawings minus Capital Introduced minus Opening Capital
14. Opening Capital plus Drawings minus Capital Introduced minus Closing Capital
15. Closing Capital minus Drawings plus Capital Introduced minus Opening Capital
16. On 1st January 2014, a business had a customer, J King, who owed K 180,000.00. During the month J King bought the goods for K 315,000.00 and returned goods valued at K 112,500.00. He also paid K 144,000.00 in cash towards the outstanding balance. The balance on J King’s account at 31st January 2014 was:
17. K 238,500.00 Debit
18. K 238,000.00 Credit
19. K 121,500.00 Debit
20. K 121,500.00 Credit
21. Which of the following is the correct entry to record the purchase on credit of inventories intended for resale?

**Debit Credit**

1. Inventories Receivables
2. Inventories Payables
3. Payables Purchases
4. Purchases Payables
5. An invoice from a supplier of office equipment has been debited to the stationery account. This error is known as:
6. Error of Commission
7. An Error of Original Entry
8. A Compensating Error
9. An Error of Principle
10. Recording the purchase of computer stationery by debiting the computer equipment at cost account would result in:
11. An overstatement of Profit and an overstatement of non-current assets
12. An understatement of profit and an overstatement of non-current assets
13. An overstatement of profit and an understatement of non-current assets
14. An understatement of profit and an understatement of non-current assets.
15. The double-entry system of book keeping normally results in which of the following balances on the ledger accounts?

**Debit Balances Credit Balances**

1. Assets and Revenues Liabilities, Capital and Expenses
2. Revenue, Capital and Liabilities Assets and Expenses
3. Assets and Expenses Liabilities, Capital and Revenue
4. Assets, Expenses and Capital Liabilities and Revenue
5. A non-current assets register showed a carrying amount of K 26,984,000.00. A non-current asset costing K 6,000,000.00 had been sold for K 1,600,000.00 making a loss on disposal of K 500,000.00. No entries had been made in the non-current asset register for this disposal. The balance on the non-current asset register is
6. K 17,084,000.00
7. K 24,884,000.00
8. K 21,484,000.00
9. K 20,484,000.00
10. Which of the following should be accounted for as Capital expenditure?
11. The cost of painting a building
12. The replacement of windows in a building
13. The purchase of a car by a garage for resale
14. Legal fees incurred on the purchase of a building.
15. The purpose of changing depreciation on non- current assets is:
16. To put money aside to replace the assets when required.
17. To show the assets in the statement of financial position at their fair value.
18. To ensure that the profit is not understated.
19. To spread the net cost of the assets over their estimated useful life.

1. The following information relates to a bank reconciliation:
2. The bank balance in the cash book before taking the items below into account was K3, 588, 000 overdrawn.
3. Bank charges of K220, 000 on the bank statement have not entered in the cash book.
4. The bank has credited the account in error with K170, 000 which belongs to another customer.
5. Cheque payment totaling K1, 310, 000 have been entered in the cash book but have not been present for payment.
6. Cheque totaling K215, 200 have been correctly entered on the debt side of the cash book but have not been paid in at the bank.

What was the balance as shown by the bank statement before taking the items above into accounts?

1. K4480000 debit
2. K2976000 credit
3. K4480000 credit
4. K2796000 debit
5. After calculating your company’s profit for 2013, you discover that
6. Non- current assets costing K20 million has been included in the purchasing account.
7. Stationery costing K4 million has been included as closing inventories of raw materials instead of as inventories of stationery.

These two errors have had the effects:

1. Understanding gross profit by K16 million and understating net profit by K20 million.
2. Understating both gross profit and net profit by K16 million.
3. Understating gross profit by K24 million and understating net profit by K20 million.
4. Overstating both gross profit and net profit by K24 million.
5. The accounting convention that dictates that non-current assets should be valued be valued at cost less accumulated depreciation rather than their enforce saleable value is:
6. Net realizable value
7. Prudence
8. Realization
9. Going concern
10. Your company sells goods on 29 December 2013 on sale or returns the final date for return or payment in full is 10 January 2014. The costs of manufacturing the products at all incurred and paid for in 2013 except for an outstanding bill for carriage outwards that is still unpaid.

The associated revenues and expenses of the transaction should be dealt with in the income statement by:

1. Including all revenues and all expenses
2. Including expenses in 2013 and in 2014.
3. Including all revenues and all expenses in 2014.
4. Including the revenue and the carriage outwards in 2014 and the other expenses in 2013.
5. Which of the following entries would affect the totals in the trials balance agreeing?
6. An invoice for K 25,000.00 for rent has been omitted from the ledgers.
7. A cash sale has been recorded as debit cash sales, credit cash.
8. An invoice for vehicle expenses has been charged to the vehicle non-current asset account.
9. A payment received from a supplier has been posted to the personal account twice.
10. Which one of the following does not help in the prevention of fraud and errors?
11. Reconciliations
12. Suspense accounts
13. Organization of staff
14. Authorization procedures.
15. In order to confirm that financial statements show a true and fair view the external auditor should ensure that the financial statements comply with:
16. Internal procedures as specifies by the directors
17. The stock exchange listed company regulations
18. The accounting conventions
19. International financial reporting standards.
20. An organization’s inventory at 1 July 2014 is 15 units at K1200.00 each. The following movements occur.

* 3 July 2014 5 units sold at K 1,320.00 each.
* 8 July 2014 10 units bought at K 1,400.00 each.
* 12 July 2014 8 units sold at K 1,600.00 each.

Closing inventory at 31 July 2014 using the FIFO method of inventory valuations would be

1. K 12,600.00
2. K 14,400.00
3. K 16,400.00
4. K 15,600.00
5. How is a bank overdraft classified in the statement of financial position
6. Non-current asset
7. Current asst
8. Current liability
9. Non-current liability.

**SECTION B (60 MARKS)**

Answer **ANY THREE** questions from this section

**QUESTION 2**

ABJ Traders started the business of selling various merchandise in 2005 and have 30 September as their year end. The balances and results for the year ended 30 September 2013 were as follows:

|  |  |
| --- | --- |
|  | **MK** |
| Capital | 600,000.00 |
| Sales | 900,000.00 |
| Non-current assets | 850,000.00 |
| Accumulated depreciation | 210,000.00 |
| Inventories as at 1 October 2012 | 80,000.00 |
| Purchases | 480,000.00 |
| Carriage inwards | 25,000.00 |
| Carriage outwards | 30,000.00 |
| Returns inwards | 20,000.00 |
| Returns outwards | 15,000.00 |
| Salaries | 90,000.00 |
| Rent | 10,000.00 |
| Electricity | 5,000.00 |
| Water | 4,000.00 |
| Bank charges | 2,100.00 |
| Motor expenses | 24,000.00 |
| Stationery expenses | 14,000.00 |
| Sundry expenses | 8,000.00 |
| Travel expenses | 18,000.00 |
| Repair of equipment | 12,900.00 |
| Receivables | 57,000.00 |
| Payables | 40,000.00 |
| Bank | 18,000.00 |
| Cash in hand | 3,000.00 |
| Drawings | 14,000.00 |

**Additional information**

1. The balance for inventories as at 30 September 2013 was K84000.
2. Non-current assets comprise land, motor vehicles and office equipment.

**Cost (K) Depreciation (K)**

Land 200,000.00 0.00

Motor vehicles 450,000.00 170,000.00

Equipment 200,000.00 40,000.00

**Depreciation policy**

Motor vehicles 20% straight line

Equipment 20% on reducing balance method

1. Accrued expenses : Electricity 3,000.00

Water 1,000.00

1. Prepaid motor expenses K 4,000.00
2. ABJ Traders have decided to make a provision for doubtful debts at 6% of closing receivables balance

**Required:**

1. Prepare the income statement for the year 30 September 2013. *(12 marks)*
2. Prepare the statement of financial position as at 30 September 2013

*(8 marks)*

**(Total 20 marks)**

**QUESTION 3**

1. Identify any **five** users of financial information and state the kind of information that they will be interested in and the type of financial statement where they will find such information. *(15 marks)*
2. Mention one **five** qualitative characteristics of financial information. *(5 marks)*

**(Total 20 marks)**

**QUESTION 4**

1. Explain **two** reasons for carrying out a bank reconciliation statement and mention any **two** items.

*(5 marks)*

1. There are a number of general provisions affecting the conduct of a partnership that should be contained in all partnership agreements apart from any special circumstances.

Mention any **five** such provisions. *(5 marks)*

1. Kalulu and Gwape are partners and own a grocery store. Their first financial year ended 31 December 2014.

The following balances were taken from the books on that date:

**Gwape Kalulu**

**K K**

Capital 960,000.00 120,000.00

Partnership salaries 120,000.00 180,000.00

Drawings 268,000.00 257,200.00

The shop’s net profit for the year was K 656,800.00. Interest on capital is to be allowed at 10% per year. Profit and losses are to be shared equally.

**Required:**

From the above information, prepare the store’s appropriation account and the partners’ current accounts. *(10 marks)*

**(Total 20 marks)**

**QUESTION 5**

1. Briefly describe **five** types of errors which do not affect the correctness of the trial balance. *(10 marks)*
2. A student pursuing the certificate in banking course was recruited on a temporary basis to assist in reducing the work load in the accounting department of premier retail shop. The student was asked to correct the following errors from the transactions for the month of July 2014.
3. Credit purchase from J. Bhana amounting to K 24,000.00 was recorded correctly in personal account but in purchases account it was recorded as K 42,000.00.
4. A cash discount of K 15,000.00 from a supplier was recorded as a credit to suppliers account and as a debit to the discount received account.
5. Cash sales amounting to K 40,000.00 were completely omitted from the accounting records.
6. Goods returned by cash customers amounting to K 12,000.00 were recorded in the receivables control account.
7. Purchase of computers for resale amounting to K 70,000.00 was recorded as non-current assets.
8. Rent paid amounting to K 30,000.00 was debited to both the rent and cash book accounts.
9. The cash book was credited with an amount of salaries paid amounting to K 65,000.00 but no corresponding entry was made in the salaries account.
10. The accountant forgot to charge depreciation for a piece of office equipment. The cost of this equipment was K 240,000.00 and its residual value was K20000. The company policy is to depreciate equipment using the sum of digit method and the economic life is estimated at 4 years. The asset has two years of its useful economic life remaining as at the end of the financial year.

**Required**

1. From the information given above from (i) to (7), prepare journal entries without narratives to correct the errors identified. *(7 marks)*
2. Compute the depreciation charge for the piece of office equipment mentioned in (8) above. *(3 marks)*

**(Total 20 marks)**

**QUESTION 6**

Write short notes to explain these five topical issues:

1. Fundamental accounting concepts. *(5 marks)*
2. Types of books of original entry. *(5 marks)*
3. Two main methods of inventory valuation. *(2 marks)*
4. Three factors that may cause depreciation. *(3 marks***)**
5. Reasons for maintaining control accounts. *(5 marks)*

**(Total 20 marks)**

**END OF THE EXAMINATION PAPER**