

**INSTITUTE OF BANKERS IN MALAWI**

**CERTIFICATE IN BANKING EXAMINATION**

**SUBJECT: INTRODUCTION TO BUSINESS ACCOUNTING**

**(IOBM – C101)**

**Date: Wednesday, 11th May 2016**

**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 (60 MARKS)**

Answer **ALL** questions from this section.

1. Limbo plc. maintains its petty cash records using an imprest system. The total petty cash float is topped up monthly to MK 300,000.00. During the month of August 2015, the following expenses were paid from petty cash:

|  |  |  |
| --- | --- | --- |
|  | **MK** |  |
| Stationery | 36,000 |  |
| Tea and Coffee | 60,000 |  |
| Stamps | 120,000 |  |
|  |  |  |

In Error, the purchase of stamps was recorded as MK 12,000.00 and as a result a cheque of MK 108,000.00 was written to top up the petty cash float. What will be the result of this error?

1. An imbalance in the trial balance of MK 108,000.00 and the petty cash balance being MK 108,000.00 less than it should be.
2. An understatement of expenses of MK 108,000.00 and the petty cash balance being MK 192,000.00 less than it should be.
3. An understatement of expenses of MK 108,000.00 and the petty cash balance being MK 108,000.00 less than it should be.
4. An imbalance in the trial balance of MK 192,000.00 and a petty cash balance being MK 192,000.00 less than it should be.
5. As at 31st December 2014, Premier plc.’s Trial Balance failed to balance and a suspense account was opened. When the following errors were discovered and then rectified, the suspense account balance was eliminated.
6. The debit side of the trial balance was under casted by MK 692.00.
7. A cheque payment of MK 905.00 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. MK1,597.00 Debit
2. MK 213.00 Debit
3. MK 1,597.00 Credit
4. MK 213.00 Credit
5. The debit balance in Ormar plc.’s Cash Book at the year end is MK 42,510.00. The following items appear in the Bank Reconciliation at the year end.

|  |  |
| --- | --- |
|  | **MK** |
| Unpresented cheques | 2,990.00 |
|  |  |
| Uncleared lodgments | 10,270.00 |

A customer’s cheque for MK 2,470.00 was returned unpaid by the Bank before the year end, but this return has not been recorded in the cash book.

What was the balance in hand shown by the bank statement?

1. MK 37,700.00
2. MK 32,760.00
3. MK 35,230.00
4. MK 47,320.00
5. Which three of the following could be found in the financial statements of a partnership?
6. Non-current Assets
7. Share Premium
8. Drawings
9. Dividends
10. Profit for the year.
11. (i), (ii) and (iii)
12. (i) (iii) and (v)
13. (i) (iii) and (iv)
14. (i) (ii) and (iv)
15. Which of the following description of the going concern assumption is the one used in IAS1 (revised) Presentation of Financial Statements?
16. Management does not intend to liquidate the entity nor to 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. Muse plc. Commenced trading on 1 January 2014 and had zero inventories at that date. During 2014 it had purchases of MK 455,000.00, incured carriage inwards of MK 24,000.00 and carriage outwards of MK 29,000.00. Closing inventories at 31st December 2014 were valued at MK 52,000.00.

What amount should appear as the cost of sales in the Income Statement for the year ended 31st December 2014?

1. MK 456,000.00
2. Mk 432,000.00
3. MK 427,000.00
4. MK 531,000.00
5. Freser plc. is a manufacturer. Its 12 month reporting period ends on 31st July and it adopts the average cost (AVCO) method of inventory usage and valuation. At 1st August 2014 it held inventory of 2,400 units of material Mapple, valued at MK 10.00 each. In the year to 31st July 2015 there were the following inventory movement of mapple:

|  |  |  |
| --- | --- | --- |
| 14th November 2014 | Sell | 900 Units |
| 28th January 2015 | Purchase | 1,200 units for MK 20,100.00 |
| 7th May 2015 | Sell | 1,800 units |

What was the value of Fezer plc.’s closing inventory of Mapple at 31st July 2015?

1. MK 35,100.00
2. MK 9,000.00
3. MK 15,075.00
4. MK 11,700.00
5. “A degree of caution is required when making judgements under conditions of uncertainty to ensure that income and assets are not overstated and expenses and liabilities are not understated.” Which accounting concept or principle does this describe?
6. Prudence
7. Going Concern
8. Accruals
9. Comparability
10. Blessings had the following balances in its Trial Balance at 30th June 2015.

|  |  |
| --- | --- |
|  | **MK** |
| Trade Receivables | 70,000.00 |
| Irrecoverable Debt expense | 500.00 |
| Allowance for receivables at 1st July 2014 | 5,000.00 |

Blessings wish to carry forward at 30th June 2015 an allowance equal to 10% of Trade Receivables.

What is the irrecoverable debts figure in the Income Statement for the 12 month reporting period ended 30th June 2015?

1. Charge of MK 2,450.00
2. Credit of MK 2,450.00
3. Charge of MK 2,500.00
4. Credit of MK 2,500.00
5. Anthony acquired new premises at a cost of MK 150 million on 1st January 2015. Anthony paid the following further costs during the year ended 31st December 2015.

|  |  |
| --- | --- |
|  | **MK** |
| Costs of initial adaptation | 8,340,000.00 |
| Legal costs relating to purchase | 720,000.00 |
| Monthly cleaning contract | 5,760,000.00 |
| Office furniture | 3,900,000.00 |
|  |  |

What amount should appear as the cost of premises in the company’s Statement of Financial Position at 31st December 2015?

1. MK 150 million
2. MK 158.34 million
3. Mk 159.06 million
4. MK 162.96 million
5. Materials purchased and used by P & Co for repairs to office buildings have been included in the draft financial statements as purchases. What will be the effect of the necessary amendment to this error?
6. Increase gross profit with no effect on net profit
7. Increase gross profit and reduce net profit
8. Have no effect on either gross profit or net profit
9. Reduce gross profit and increase net profit.
10. The following information relates to the disposal of two machines by Paddock.

|  |  |  |
| --- | --- | --- |
|  | **Machine One** | **Machine Two** |
|  | **MK** | **MK** |
| Cost | 120,000.00 | 140,000.00 |
| Disposal proceeds | 90,000.00 | 80,000.00 |
| Profit/Loss on Disposal | 30,000.00 | (-40,000.00) |

What was the total carrying amount of both machines sold at the date of disposal?

1. MK 100,000.00
2. MK 160,000.00
3. MK 240,000.00
4. MK 180,000.00
5. A business with reporting period of the 12 months ended 30th June bought a non-current asset on July 2013 for MK 120 million. Depreciation was charged at 15% per annum on the reducing balance basis. On 30th June 2015 the asset was sold for MK 32.88 million.

What was the loss on sale of assets?

1. MK 51.12 million
2. MK 53.82 million
3. MK 40.815 million
4. MK 33.12 million
5. Peter, James and John are in partnership, preparing financial statements as at 31st August each year and sharing profits 4:3:1. Peter retired on 30th April 2014 and James and John continued, sharing profits 3:1 respectively.

The business profits for appropriation arising evenly over the 12 months to 31st August 2014 were MK 121,248.00. What is James’s profit share for the year to 31st August, 2014?

1. MK 30,312.00
2. MK 45,468.00
3. MK 60,624.00
4. MK 90,936.00
5. A company’s statement of profit loss for the year ended 31st December 2015 showed a net profit of MK 83,600.00. It was later found that MK 18,000.00 paid for purchase of motor van had been debited to the motor expenses account. It is the company’s policy to depreciate motor vans at 25% per year on the straight line basis, with a full year’s charge in the year of acquisition.

What would the net profit be after adjusting for the error?

1. MK 106,100.00
2. MK 70,100.00
3. MK 101,600.00
4. MK 97,100.00
5. Which of the following statements are **true** of limited liability companies?
6. The company’s exposure to debts and liabilities is limited.
7. Financial Statements must be produced.
8. A Company continues to exist regardless of the identity of the owners.
9. (i) and (iii) only
10. (i) and (ii) only
11. (ii) and (iii) only
12. (i), ii and (iii)
13. The plant and machinery account at cost of a business for the year ended 31st December 2014 was as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **PLANT AND MACHINERY (COST)** | | | | | |
| **2014** |  | **MK** | **2014** |  | **MK** |
| 01-Jan | Balance b/f | 240,000.00 | 31-Mar | Transfer to Disposal a/c | 60,000.00 |
| 30-Jun | Cash purchase of plant | 160,000.00 | 31-Dec | Balance c/f | 340,000.00 |
|  |  |  |  |  |  |
|  |  | **400,000.00** |  |  | **400,000.00** |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

The Company’s policy is to charge depreciation of 25% per year on the straight line basis, with proportionate depreciation in the year of purchase and disposal.

What should be the depreciation charge for the year ended 31st December 2014?

1. MK 68,000.00
2. MK 64,000.00
3. MK 55,000.00
4. MK 61,000.00
5. The following bank reconciliation statement has been prepared by a trainee accountant:

|  |  |
| --- | --- |
|  | MK |
| Overdraft per bank Statement | 3,860.00 |
| Less: Unpresented cheques | 9,160.00 |
|  | 5,300.00 |
| Add: Outstanding Lodgments | 16,690.00 |
| Cash at Bank | 21,990.00 |
|  |  |

What should be the correct balance as per the cash book?

1. MK 21,990.00 balance at bank as stated
2. MK 11,390.00 balance at bank
3. MK 3,670.00 balance at bank
4. MK 3,670.00 overdrawn
5. Which of the following explains the imprest system of operating petty cash?
6. Weekly expenditure cannot exceed a set amount
7. The exact amount of expenditure is reimbursed at intervals to maintain a fixed float.
8. All expenditure out of the petty cash must be properly authorised.
9. Regular equal amounts of cash are transferred into petty cash at intervals.
10. At June 30 2014 a company’s allowance for receivables was MK 39,000.00. At 30 June 2015 trade receivables totalled MK 517,000.00. It was decided to write off debts totalling MK 37,000.00 and to adjust the allowance for receivables to the equivalent of 5% of the trade receivables based on past events.

What figure should appear in the statement of profit or loss for the year ended 30th June 2015 for receivables expense?

1. MK 61,000.00
2. MK 52,000.00
3. MK 22,000.00
4. MK 37,000.00

**SECTION B (60 MARKS)**

Answer **ANY THREE** questions from this section

**QUESTION 2**

ABJ Traders started the business of selling various merchandise in 2015 and have December as their year-end. The Trial Balance for year ended 31st December 2015 was as follows:

|  |  |
| --- | --- |
|  | **MK** |
| Capital | 6,000,000 |
| Sales | 9,000,000 |
| Non-Current Assets | 8,500,000 |
| Accumulated depreciation | 2,100,000 |
| Inventories at 1st January 2015 | 800,000 |
| Purchases | 4,800,000 |
| Carriage inwards | 250,000 |
| Carriage inwards | 300,000 |
| Return Inwards | 200,000 |
| Return Outwards | 150,000 |
| Salaries | 900,000 |
| Rent | 100,000 |
| Electricity | 50,000 |
| Water | 40,000 |
| bank charges | 21,000 |
| Motor Expenses | 240,000 |
| Stationery Expenses | 140,000 |
| Sundry Expenses | 80,000 |
| Travel expenses | 180,000 |
| Repair of Equipment | 129,000 |
| Receivables | 570,000 |
| Payables | 400,000 |
| Bank | 180,000 |
| Cash In Hand | 30,000 |
| Drawings | 140,000 |

**Additional Information**

1. The balance for inventories as at 31st December 2015 was MK 840,000.00.
2. Non-current Assets comprise land, motor vehicle and office equipment:

|  |  |  |
| --- | --- | --- |
|  | **Cost** | **Depreciation** |
|  | **MK** | **MK** |
| Land | 2,000,000 | 0 |
| Motor Vehicles | 4,500,000 | 1,700,000 |
| Equipment | 2,000,000 | 400,000 |

**Depreciation Policy:**

Motor Vehicles 20% Straight line

Equipment 20% on Reducing Balance method

1. Accrued expenses:

Electricity 30,000.00

Water 10,000.00

1. Prepaid motor expenses MK 40,000.00
2. ABJ Traders have decided to make a provision for irrecoverable debts at 6% of closing receivables balance.

**Required:**

1. Prepare the Income Statement for the year to 31st December 2015. *(12 marks)*
2. Prepare a Statement of Financial Position as at 31st December 2015. *(8 marks)*

**(Total 20 marks)**

**QUESTION 3**

The Financial Accountant of Bilila Enterprises extracted a Trial Balance and prepared accounts for the half year ended 31st May 2015. There was a shortage of MK 29,200.00 on the credit side of the Trial Balance. The Financial Accountant then opened a Suspense Account for the amount. The net profit calculated for the six months was MK 1,137,000.00.

During the second half of the year, the financial Accountant located the following errors.

1. MK 5,500.00 received from the sale of old office equipment had been entered in the Sales account instead of the Cash Book.
2. The Purchases Day Book has been over casted by Mk 6,000.00
3. Bank Charges of MK 3,800.00 entered in the cash book had not been posted to the bank charges account.
4. Sale of goods to Masapende Canners for MK 69,000.00 had been correctly entered in the Sales Day Book but had been entered in the personal account as MK 96,000.00
5. A private purchase of MK 11,500.00 had been included in the business purchases.

**Required:**

1. Indicate which of the errors listed above will affect the agreement of the Trial Balance.  *(4 marks)*
2. Prepare the journal entries, with narratives to correct the errors. *(5 marks)*
3. Prepare the Suspense Account showing the effects of the correction of the errors.

*(2 marks)*

1. Calculate the correct figure of the net profit for the half year ended 31st May 2015.

*(3 marks)*

1. Name six types of errors which do not affect the agreement of the Trial Balance. Give an example under each type. *(6 marks)*

**(Total 20 marks)**

**QUESTION 4**

Mrs Jane Misomali purchases and sales second hand mini buses. Because of the turnover of her stocks, she has not determined the inventory valuation method to use for her business. During the year 2015, she had the following transactions:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | |  | | |  | | |
| **Bought** |  | |  |  | |  |
| January | 10 vehicles at MK 3,000,000.00 each | | | | | |
| March | 10 vehicles at MK 3,400,000.00 each | | | | | |
| September | 20 vehicles at MK 4,000,000.00 each | | | | | |
|  |  | |  |  | |  |
| **Sold** |  | |  |  | |  |
| April | 8 vehicles at MK 3,400,000.00 each | | | | | |
| December | 12 vehicles at MK 5,600,000.00 each | | | | | |

**Required:**

1. Calculate the closing inventory in trade that would be shown using the following methods of inventory valuation:
2. First In First Out (FIFO)
3. Average Cost (AVCO) *(10 marks)*
4. Prepare the Trading Account (Statement of Comprehensive Income) under the following methods:
5. FIFO
6. AVCO *(4 marks)*
7. Explain the Prudence Concept in relation to the valuation of inventories. *(2 marks)*
8. Identify **two** advantages and **two** disadvantages of FIFO method of inventory valuation. *(4 marks)*

**(Total 20 marks)**

**QUESTION 5**

1. Management accounting differs from financial accounting. Explain **two** characteristics of management accounting which make it more suitable for decision making. *(4 marks)*
2. Identify the accounting concept which would best apply to the following scenarios:
3. An amount included in financial statements to represent the amount expected not to be recovered from a customer. *(2 marks)*

Ii Rent paid in the current year but relating to the next financial year to be removed from the current year Income Statement charge. *(2 marks)*

1. The preparation of financial statements on the assumption that the business will operate to a foreseeable future. *(2 marks)*
2. Cash for the business taken by the owner recorded in the drawings account

*(2 marks)*

1. Ensuring that the treatment of transactions of the same type is done in the same way. *(2 marks)*
2. A Businessman had the following balances at the beginng and the end of a financial year.

|  |  |  |
| --- | --- | --- |
|  | **May 2014** | **May 2015** |
|  | **MK** | **MK** |
| Rent Prepaid | 16,000.00 | 12,000.00 |
| Electricity Accrual | 11,000.00 | 19,000.00 |

During the year to 31st May 2015, the businessman made the following payments:

Rent MK 86,000.00

Electricity MK 49,000.00

**Required:**

Prepare T accounts for Rent and Electricity showing how much should be charged to the Income Statement for the year ended 31st May 2015. *(6 marks)*

**(Total 20 marks)**

**QUESTION 6**

Reid and Benson are in partnership as lecturers and tutors. Interest is to be allowed on capital and on the opening balances on the current account at a rate of 5% per annum and Reid is to be given a salary of MK 18,000,000.00 per annum. The profits and losses are to be shared Reid 60% and Benson 40%.

The Following Trial Balance was extracted from the books of the partnership at 31st December 2015.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Dr** |  | **Cr** |
|  | **MK,000** |  | **MK,000** |
| Capital Account – Benson |  |  | 50,000 |
| Capital Account – Reid |  |  | 75,000 |
| Capital Account – Benson |  |  | 4,000 |
| Capital Account – Reid |  |  | 5,000 |
| Drawings – Reid | 17,000 |  |  |
| Drawings – Benson | 20,000 |  |  |
| Sales - Goods and Services |  |  | 541,750 |
| Purchase of Textbooks for Sale | 291,830 |  |  |
| Return Inwards and Return Outwards | 800 |  | 330 |
| Carriage Inwards | 3,150 |  |  |
| Staff Salaries | 141,150 |  |  |
| Rent | 2,500 |  |  |
| Insurance – General | 1,000 |  |  |
| Insurance - Public Indemnity | 1,500 |  |  |
| Compensation | 10,000 |  |  |
| General Expenses | 9,500 |  |  |
| Bad Debts Written Off | 1,150 |  |  |
| Fixtures and Fittings – Cost | 74,000 |  |  |
| Fixtures and Fittings – Depreciation |  |  | 12,000 |
| Account Receivables | 137,500 |  |  |
| Account Payables |  |  | 23,400 |
| Cash | 400 |  |  |
|  | **711,480** |  | **711,480** |

The following information is also available as at 31st December 2015

1. An allowance for irrecoverable debts is to be created of MK 1,500,000.00
2. Insurances paid in advance were General MK 50,000.00, Professional Indemnity MK 100,000.00
3. Fixtures and Fittings are to be depreciated at 10% on cost.
4. Interest on drawings: Benson MK 550,000.00

Reid MK 1,050,000.00

1. Inventory of books at 31st December 2015 was MK 1,500,000.00

**Required:**

1. Prepare an Income Statement together with an Appropriation Account for the year to 31st December 2015. *(14 marks)*
2. Prepare the Statement of Financial Position as at 31st December 2015. *(6 marks)*

**(Total 20 marks)**

**END OF THE EXAMINATION PAPER**