

**INSTITUTE OF BANKERS IN MALAWI**

**CERTIFICATE IN BANKING EXAMINATION**

**SUBJECT: INTRODUCTION TO BUSINESS ACCOUNTING**

**(IOBM – C101)**

**Date: Wednesday, 9th November 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. A car cost K20, 000,000 and is expected to be sold for k4, 000,000 after four years. Calculate the depreciation charge for year three using the sum of digit method.
   1. K5,000,000
   2. K3,200,000
   3. K1,600,000
   4. K4,000,000
2. A piece of machinery was at K15m three years ago. It is being depreciated at 20 % p.a. using the straight line method with no residual value. It has now been sold at a profit of K2m.

Calculate the disposal price.

* 1. K6m
  2. K10m
  3. K3m
  4. K8m

1. An accounting equation forms the basis on which accounting is based. State which form the accounting equation has correctly considered drawings and profits.
   1. Assets = Capital +Liabilities +Drawings - Profits
   2. Assets - Capital = Liabilities + Drawings + Profits
   3. Assets = Capital + Liabilities + Profits - Drawings
   4. Assets - Liabilities = Capital - Profits - Drawings
2. A payment made by T. George has been entered in the customer account of T. Gorge. State the type of error.
   1. Error of Omission
   2. Error of Principle
   3. Transposition Error
   4. Error of Commission
3. A payment for electricity bills for K55, 600 has been entered in the books as K85, 600. Which of the following entries represent the correction of the error?
   1. Debiting Electricity by K30,000 and Crediting Cashbook by K30,000
   2. Debiting Cash book by K55,600 and Crediting Electricity by K55,600
   3. Debiting Cash book by K30,000 and Crediting Electricity by K30,000
   4. Debiting Electricity by K85,600 and Crediting Cashbook by K85,600
4. A water utility account had a credit opening balance of K6, 000 and credit closing balance of K120, 000. K100, 000 was paid during the month. Calculate the charge for the month.
   1. K200,00
   2. K214,000
   3. K180,000
   4. K120,000
5. Calculate an updated cash book balance given the following information:
   * 1. Cash book balance of K84,000 before the update
     2. Dishonored cheque amounting to K40,000
     3. Bank charges of K12,000
     4. Direct debits amounting to K19,000
     5. Un-presented cheques of K299,000
     6. Outstanding lodgments of K250,000
   1. K91,000
   2. (K17,000)
   3. K51,000
   4. K63,000
6. Which of the following statements are **true** in relation to partnerships :
   * 1. Partners share profits equally
     2. Partners’ salaries are expenses
     3. Partners’ drawings may attract interest
     4. Share of profit are recorded on the credit side of the current accounts or capital accounts
   1. i) and iii)
   2. ii) and iii)
   3. i)and iv)
   4. iii) and iv)
7. In the first year of business, a company provided K100, 000 as an allowance for receivables. At the end of the second year, trade receivables amounted to K1, 900,000. It is the company’s policy to provide 10 % of the trade receivables as an allowance for receivables. Calculate an amount to be recorded in the Income Statement (Statement of Profit or Loss).
8. K100,000
9. K190,000
10. K90,000
11. K290,000
12. Which of the following items are recorded in the debit column of the trial balance?
    * 1. Assets
      2. Liabilities
      3. Capital
      4. Income
      5. Expenses
    1. i) and iii)
    2. i) and v)
    3. ii) and iv)
    4. iii) and v)
13. A business had an opening capital of K2m. At the end of the year, assets amounted to K5.3 and liabilities were at K1.3. During the year, the owners of the business increased the capital of the business by K1.4m. Calculate the profit that the business had made during the year.
    1. K0.6m
    2. K4m
    3. K2m
    4. K4.3
14. Which of the following ways may assist in bringing good goal congruence between

management and shareholders?

* + 1. Stock option schemes
    2. Forcing management to work overtime
    3. Profit-related schemes
    4. Calling in the Police to enforce the hardworking spirit
  1. i) and ii)
  2. i) and iv)
  3. ii)and iii)
  4. i) and iii)

1. Which of the following is **not** used to record transactions before the double entry system is applied book of original entry?
   1. Cash book
   2. Purchases day book
   3. Good received note
   4. Sales day book
2. A business had the following transactions during the month of December 2015 :

|  |  |
| --- | --- |
| Transaction | Km |
| Sales | 90 |
| Purchases | 54 |
| Opening inventories | 6 |
| Closing inventories | 9 |
| Sales returns | 2 |
| Purchases returns | 1 |
| Carriage inwards | 2 |
| Carriage outwards | 2 |

Calculate the Gross Profit for the business.

* 1. K36m
  2. K38m
  3. K40m
  4. K34m

1. A business had received a discount of K90, 000. The accountant does not know how to account for the transaction. How should the transaction be accounted in the financial statements?
   1. As a current asset
   2. As an expense
   3. As a liability
   4. As income to be added to gross profit
2. A business purchased equipment for K20m on 1st January 2015. The asset has a useful life of five years. The cost of the equipment is to be spread evenly throughout the five year period. However, the purchase of the equipment had been recorded as an expense. The profit for the year ended 31 December 2015 was K1.8m. Calculate the adjusted profit for the business.
   1. K20.8m
   2. K21.8m
   3. K19.8m
   4. K20.0m
3. The following Receivables Control account has been prepared for Mulanje Hawkers Limited:

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **K000** | **Description** | **K000** |
| Balance b/d | 700 | Bank | 300 |
| Sales | 1,500 | Contra settlement | 97 |
| Sales returns | 10 | Discount allowed | 16 |
| Irrecoverable debts | 18 | Balance c/d | 1,815 |
|  | 2,228 |  | 2,228 |

Which entries are **not** correct?

* 1. Sales and Bank
  2. Sales returns and Bad debts
  3. Bad debts and Contra settlement
  4. Sales and Contra settlement

1. A partnership which has 2 partners has a profit of K2.1m before appropriation. Interest on drawings amounted to K0.6m and interest on capital was K0.35m. Partners’ salaries were agreed at K0.29m. Calculate the amount which will be shared by the partners.
   1. K1.03m
   2. K2.70m
   3. K1.20m
   4. K2.06m
2. Which of the following statement is **not** true in relation to the Consistency Concept?
   1. Companies should not change accounting treatment of transactions
   2. Similar transaction should be accounted for in a similar manner
   3. Application of the concept facilitates comparison of financial statements
   4. Companies can change accounting policies when there is a need for them to do so.
3. Which of the following is a current liability?
4. Bank overdraft
5. Capital
6. Goodwill
7. A loan from a director of the company repayable in two years’ time.

**SECTION B (60 MARKS)**

Answer **ANY THREE** questions from this section

**QUESTION 2**

1. Explain the importance of source documents and books of original entry.

*(4 marks)*

1. The following is a list of transactions which are likely to be undertaken when running businesses :
2. Purchase of goods on credit.
3. Refunds to credit customers on return of faulty goods.
4. Till point sale of groceries at a local supermarket.
5. Sale of goods on credit.

**Required:**

* + - 1. For each transaction, mention the source document used to record these transactions and the book of original entry for the transaction. *(8 marks)*
      2. Explain why a cash book is both a book of original entry and part of the double entry system. *(3 marks)*
      3. List the steps which are followed when balancing off accounts. *(5 marks)*

**(Total 20 marks)**

**QUESTION 3**

The following is a list of balances relating to Atameje Business for the year ended December 2015.

|  |  |
| --- | --- |
|  | **K** |
| Debit balance on Receivables Ledger as at 1 January 2015 | 132,600 |
| Credit balance on Payables Ledger as at 1 January 2015 | 101,200 |
| Sundry credit balance on Receivables Ledger as at 1 January 2015 | 1,448 |
| Goods purchased on credit | 515,838 |
| Goods sold on credit | 647,228 |
| Cash received from credit customers | 598,298 |
| Cash paid to suppliers | 421,044 |
| Discount received | 5,326 |
| Discount allowed | 5,860 |
| Cash purchases | 7,254 |
| Cash sales | 11,844 |
| Irrecoverable debts | 7,302 |
| Interest on overdue accounts | 554 |
| Returns outwards | 5,852 |
| Returns inwards | 5,610 |
| Accounts settled by contra between Receivables and Payables Ledgers | 2,212 |
| Debit balances on Receivables Ledger 31 December 2015 | 159,652 |
| Credit balances on Payables Ledger 31 December 2015 | 182,604 |

**Required:**

Prepare the receivables control account and payables control account for Atameje Business as at 31 December 2015.

**(Total 20 marks)**

**QUESTION 4**

The following is a list of account balances for Mandala’s business as at 31 December 2015.

|  |  |
| --- | --- |
|  | **K000** |
| Capital | 193,894 |
| Land and buildings | 114,000 |
| Motor vehicles | 37,500 |
| Accumulated depreciation - Motor vehicles | 15,450 |
| Rent | 3,000 |
| Purchases | 164,770 |
| Sales | 234,481 |
| General expenses | 7,263 |
| Wages | 26,649 |
| Irrecoverable debts | 693 |
| Allowance for receivables | 876 |
| Drawings | 18,000 |
| Trade receivables | 20,911 |
| Trade payables | 13,006 |
| Inventories at 1 January 2015 | 32,193 |
| Cash at bank | 32,728 |
| Carriage inwards | 1,200 |
| Carriage outwards | 1,800 |
| Discount received | 3,000 |
| Discount allowed | 1,000 |
| Sales returns | 1,500 |
| Purchases returns | 2,500 |

**Required:**

1. Describe any **four** types of errors which do not affect the equality of a trial balance. *(8 marks)*
2. Prepare a trial balance for Mandala as at 31 December 2015. *(12 marks)*

**(Total 20 marks)**

**QUESTION 5**

The following balances have been drawn from the financial records of ABC Partnership as at 31 December 2015:

|  |  |
| --- | --- |
| Capital - A | 4,000,000 |
| B | 3,500,000 |
| C | 2,500,000 |
| Current Accounts : A | 1,200,000 |
| B | 1,050,000 |
| C | 950,000 |
| Buildings | 10,200,000 |
| Motor vehicles | 4,000,000 |
| Inventories | 800,000 |
| Trade receivables | 2,200,000 |
| Trade payables | 1,800,000 |
| Bank (debit) | 400,000 |
| Long term loan | 3,000,000 |
| Accruals | 200,000 |
| Prepayments | 600,000 |

1. Prepare the Statement of Financial Position for ABC Partnership as at 31 December 2015.  *(9 marks)*
2. Explain the consequences of having no partnership agreement and how the law takes care of that situation*. (11 marks)*

**(Total 20 marks)**

**QUESTION 6**

Mkhuzi Bay Trading Giants supply fishing equipment to fishermen in Monkey Bay. The trial balance for the business for the year ending 31 December 2015 was as follows:

|  |  |  |
| --- | --- | --- |
| Capital |  | 600,000.0 |
| Motor vehicles at cost | 1,200,000.0 |  |
| Accumulated depreciation on motor vehicles (1 January 2015) |  | 432,000.0 |
| Inventories (1 January 2015) | 180,000.0 |  |
| Salaries | 270,000.0 |  |
| Rent and rates | 115,000.5 |  |
| Utility bills | 157,000.5 |  |
| Insurance | 112,000.5 |  |
| Purchases | 900,000.0 |  |
| Sales |  | 2,077.5 |
| Return Inwards | 37,000.5 |  |
| General expenses | 31,000.5 |  |
| Trade payables |  | 172,000.5 |
| Trade receivables | 240,000.0 |  |
| Bank loan |  | 150,000.0 |
| Carriage inwards | 30,000.0 |  |
| Advertising expenses | 30,000.0 |  |
| Bank | 127,000.5 |  |
|  | **3,432,000.0** | **3,432,000.0** |

The following information is relevant for the preparation of financial statements:

* 1. Depreciation on motor vehicle is charged on straight line over five years with an estimated residual value of K120, 000.
  2. The value of closing inventories was K217, 500.
  3. Rent has been prepaid by K25, 500.
  4. The loan attracts an annual interest of 12% per annum and this has not yet been

paid.

* 1. Insurance has been accrued by K22, 500.

**Required:**

1. Prepare an Income Statement (Statement of Profit or Loss) for Mkhuzi Bay Trading Giants as at 31 December 2015. *(12 marks)*
2. Prepare a Statement of Financial Position for Mkhuzi Bay Trading Giants as at that date. *(8 marks)*

**(Total 20 marks)**

**END OF THE EXAMINATION PAPER**