

Examination No. \_\_\_\_\_

**THE PUBLIC ACCOUNTANTS EXAMINATION**  
**COUNCIL OF MALAWI**

**2009 EXAMINATIONS**

**ACCOUNTING TECHNICIAN PROGRAMME**

**PAPER TC 6: ACCOUNTING/2**

**TUESDAY 8 DECEMBER 2009**

**TIME ALLOWED: 3 HOURS**

**9.00 AM - 12.00 NOON**

**INSTRUCTIONS**

1. You are allowed **15 minutes** reading time **before the examination begins** during which you should read the question paper and, if you wish, make annotations on the question paper. However, you will **not** be allowed, **under any circumstances**, to open the answer book and start writing or use your calculator during this reading time.
2. Number of questions on paper - 7.
3. **FIVE** questions **ONLY** to be answered.
4. Each question carries 20 marks.
5. Marks will be awarded for neat presentation and layout.
6. All workings must be shown.
7. Begin each answer on a fresh page.
8. **DO NOT OPEN THIS PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.**

This question paper contains 11 pages

This question paper must **not** be removed from the examination hall.

1. The following information has been obtained from Chimwendo Ltd.

**Statement of financial position as at**

	<b>31.12.08</b>	<b>31.12.07</b>
Non current assets	K	K
Freehold land	568,000	568,000
Plant and machinery at net book value	<u>297,200</u>	<u>202,800</u>
	865,200	770,800
Current assets		
Stocks	52,000	48,400
Debtors	92,400	30,000
Cash	<u>41,200</u>	
	<u>185,600</u>	<u>78,400</u>
Creditors: amounts failing due within one year		
Creditors	53,600	34,400
Taxation	3,600	2,800
Bank overdraft	-	16,000
Dividends	<u>30,800</u>	<u>24,000</u>
	<u>88,000</u>	<u>77,200</u>
Net current assets	<u>97,600</u>	<u>1,200</u>
	<u>962,800</u>	<u>772,000</u>
Ordinary share capital	720,000	592,000
Profit and loss account	<u>242,800</u>	<u>180,000</u>
	<u>962,800</u>	<u>772,000</u>

**Summarized Income Statement for the year 31 December 2008**

	K
Turnover	600,000
Cost of sales	<u>198,400</u>
	401,600
Expenses	<u>288,000</u>
Profit before taxation	113,600
Taxation	<u>8,000</u>
	105,600
Dividends	<u>42,800</u>
Retained profit for the year	<u>62,800</u>

Additional information

1. Accumulated depreciation was as follows:

	31.12.08	31.12.07
Plant and machinery	190,000	193,200

2. During the period, Chimwendo Limited sold a piece of machinery for K16,800 with original cost of K 56,000. The profit on disposal amounting to K 11,200 was included in the expenses in the profit and loss account.

**Required:**

- (a) Prepare a Statement of Cash Flows, for Chimwendo Limited, as at 31 December 2008. **15 Marks**
- (b) Chimwendo Ltd financed part of its activities through issue of ordinary shares. Explain briefly the advantages of financing activities through issue of ordinary shares against issue of debentures as a cash flow management strategy.

**5 Marks**

**(TOTAL : 20 MARKS)**

NOT FOR SALE

**Continued/.....**

2. Tsalani, one of a three member partnership, decided to retire on 31 December 2008. Mjojo and Chabwe agreed to continue with the business operations from 1<sup>st</sup> January 2009 in a new partnership. Below is the draft statement of financial position for the partnership as at 31 December 2008.

**Draft statement of financial position as at 31 December 2008**

Non current assets	K
Land and buildings (net)	640,000
Furniture and fittings (net)	48,000
Motor vehicles (net)	<u>80,000</u>
	768,000
Current assets	
Stocks	92,000
Trade debtors (less provision for doubtful debts)	164,000
Prepayments	8,000
Bank and cash	<u>40,000</u>
	304,000
Less : Current liabilities	
Trade creditors	60,000
Accruals	<u>12,000</u>
	72,000
	<u>1,000,000</u>
Capital accounts	
Tsalani	400,000
Mjojo	240,000
Chabwe	<u>160,000</u>
	<u>800,000</u>
Current accounts	
Tsalani	96,000
Mjojo	40,000
Chabwe	<u>32,000</u>
	168,000
Partners loan - Tsalani	<u>32,000</u>
	<u>1,000,000</u>

Additional information:

- Originally, the partners shared profits and losses in the ratio 2:1:1 for Tsalani, Mjojo and Chabwe. However, Mjojo and Chabwe agreed to be sharing profits and losses in the ratio 2:1 under the new partnership arrangement.
- The partners also agreed to make following adjustments to the draft statement of financial position as at 31 December 2008 on dissolution of the old partnership:
  - Stocks write-off to amount to K 20,000
  - Land and buildings to be revalued at K 800,000
  - Furniture and fittings to be revalued at K 25,000

- (iv) Bad debts provided in the draft statement of financial position amounted to K4,000. A bad debt amounting to K8,000 must be written off the books and the provision for doubtful debts should be adjusted to 5% of trade debtors as at 31 December 2008.
- (v) Dissolution related costs amounted to K 4,000.
- (vi) Goodwill was valued at K153,600 and no goodwill is to be carried in the books of the new partnership.
- (vii) All outstanding payments to the retiring partner should be met from a bank loan that should leave the new partnership with a cash balance of K 10,000.
- (viii) All balances on current account should be closed off to capital accounts.

**Required:**

Prepare for the purpose of the dissolution:

- (a) The revaluation account **3 Marks**
  - (b) The capital accounts at dissolution date and bring down balances for the new partnership. **9 Marks**
  - (c) A draft statement of financial position for the new partnership as at 1 January 2009 **8 Marks**
- (TOTAL : 20 MARKS)**

3. (a) Below is a petty cash return from one of the branches of an organization

**Petty Cash Return for February 2008**

Date	Details	Voucher No.	Total	Motor Expenses	Telephones	Postage & Courier	Casual Labour	Cleaning	Travel Costs	Travel Allowances
01-Feb	MTL units	1	240.00		240.00					
02-Feb	Petrol	2	1,077.50	1,077.50						
03-Feb	Chimw emwe	3	400.00						400.00	
04-Feb	Stamps & Posatge	4	200.00			200.00				
05-Feb	Mops & bucket	5	1,000.00					1,000.00		
06-Feb	Jones	6	800.00				800.00			
07-Feb	James	7	500.00							500.00
09-Feb	Desiel	8	800.00	800.00						
11-Feb	Jane	9	200.00						200.00	
13-Feb	Postage	10	400.00			400.00				
15-Feb	Cleaning	11	500.00					500.00		
17-Feb	Repairs	12	950.00	950.00						
18-Feb	MTL units	13	480.00		480.00					
23-Feb	Petrol	14	700.00	700.00						
25-Feb	James	15	450.00							450.00
		Total	<b>8,697.50</b>	<b>3,527.50</b>	<b>720.00</b>	<b>600.00</b>	<b>800.00</b>	<b>1,500.00</b>	<b>600.00</b>	<b>950.00</b>

Physical cash count

1,302.50

Total float amount

10,000.00

**Required:**

- (i) Explain the Imprest System in petty cash management. **2 Marks**
- (ii) Prepare, with narratives, journal entries to record the above transactions including the refund to the petty cashier for the February 2008 management accounts. **8 Marks**
- (b) On 1<sup>st</sup> January 2008 Mwala consigned goods to Rubwe valued at K 960,000. It was agreed that Rubwe should receive a commission of 5% on gross sales. Expenses incurred by Mwala for freight and insurance amounted to K 57,600. An account sales was made up to 31 March 2008, the financial year end of Mwala. The Account Sales showed that 75% of the goods had been sold for K 908,571 but that by 31<sup>st</sup> March 2008 only K 737,143 had been received by Rubwe in respect of these sales. Expenses in connection with clearing of goods consigned were shown as being K 28,000 and it was also shown that K 19,600 had been incurred on selling. With the Account Sales, Rubwe made a telegraphic transfer for the balance due and Mwala incurred bank charges amounting to K960 on 15<sup>th</sup> April 2008 for the transaction.

Rubwe sent a further Account Sales to Mwala made up to 30<sup>th</sup> June 2008 showing that the balance of the goods had been sold for K 384,000 and K 16,000 was incurred on selling expenses. All cash from the sales was received except for a bad debt of K 9,600. Another telegraphic transfer was made and Mwala paid bank charges amounting to K 720 for the transaction.

**Required:**

Prepare the Consignment to Rubwe Account to 30 June 2008. **10 Marks**  
**(TOTAL : 20 MARKS)**

4. The following trial balance and extract of statement of financial position were taken from ZPX Ltd books of accounts as at 31 December 2008.

**(i) Trial balance for ZPX Ltd**

	K	K
Stocks	2,411,250	
Debtors and creditors	1,400,000	952,750
Provision for doubtful debts		52,250
Purchases and sales	5,802,500	8,052,500
Cash balance	118,000	
Bank overdraft		177,250
Salaries	463,750	
Rent, rates and insurance	230,500	
General expenses	97,250	
Advertising	281,500	
Lighting and heating	192,250	
Bad debts	85,250	
Bank interest	85,000	
Non-current assets at cost	3,250,000	
Accumulated depreciation		1,072,500
Ordinary share capital		2,100,000
Share premium account		575,000
Retained profit		685,000
24% debenture		750,000
	<u>14,417,250</u>	<u>14,417,250</u>

**(ii) Extract of Statement of financial position for ZPX Ltd for publication**

		K
<b>Non-current assets</b>	Note 1	1,890,000
<b>Current assets</b>		
Stock		2,841,250
Trade debtors	Note 2	1,330,000
Prepayments		29,000
Cash		<u>118,000</u>
		<u>4,318,250</u>
<b>Current liabilities</b>		
Trade creditors		952,750
Accruals		27,500
Bank overdraft		177,250
Interest payable	Note 3	<u>103,000</u>
		<u>1,260,500</u>
<b>Net Assets</b>		<u>4,947,750</u>

Additional information

- (1) The closing stocks were valued at K 2,841,250 as at 31 December 2008.
- (2) The accounting policy for provision of doubtful debts is 5% of trade debtors balance.
- (3) Rates and insurance amounting to K 29,000 were prepaid in December 2008.
- (4) Expenses incurred but not paid and posted in the ledger by 31 December 2008 included:
  - (i) Debenture interest
  - (ii) Rent - K 27,500
- (5) 10% dividend was declared by the Board to be paid by 31<sup>st</sup> January 2009.
- (6) K 287,500 should be provided for depreciation on the non-current assets.
- (7) K 185,000 is the estimated income tax for the financial year.
- (8) The sum of K 231,430 should be transferred to general reserve account.
- (9) K 345,000 worth of non-current assets were acquired during the year.
- (10) ZPX Ltd listed its ordinary shares on the Stock Exchange last year through an Initial Public Offer (IPO) at K 5.00 per share. The share price shot up to K 10.00 after a month. However, the shares are now trading at K 5.50.

**Required:**

- (a) Prepare the Income Statement for the year ended 31 December 2008 for ZPX Ltd for internal use, showing clearly appropriation of the profit and the detailed expenses. **11 Marks**
- (b) Prepare detailed notes 1, 2 and 3 to the financial statements. **5 Marks**
- (c) Explain why the share price for ZPX Ltd might have shot up to K 10.00 and gone down to K 5.50. **4 Marks**

**(TOTAL : 20 MARKS)**



5. (a) The owner of the Small Enterprise noted that the income statement as prepared by a consultant for the year ended 31 December 2008 was missing. However, the owner managed to find the following information:

**Unadjusted Trial balance as at 31 December 2008**

	Dr K	Cr K
Capital		240,000
Profit and loss account		30,000
Purchases	320,000	
Sales		480,000
Stocks	161,000	
Debtors	105,000	
Cash and bank	70,000	
Prepayments – insurance	5,600	
Motor vehicle	112,000	
Accumulated depreciation		37,000
Creditors		84,000
Rent	17,600	
Wages	52,000	
Advertising	27,800	
	<u>871,000</u>	<u>871,000</u>

**Statement of financial position as at 31 December 2008**

	K
Capital	240,000
Profit and loss account	67,600
Creditors	84,000
Accruals – wages	<u>8,000</u>
	<u>399,600</u>
Non-current assets	
Motor vehicle	112,000
Accumulated depreciation	<u>(57,000)</u>
	55,000
Current assets	
Stocks	166,400
Debtors	105,000
Cash and bank	70,000
Prepayments	<u>3,200</u>
	<u>399,600</u>

**Required:**

Prepare a new Income Statement for the year ended 31 December 2008 for the Small Enterprise.

**6 Marks**

- (b) Mbiso Ltd, brewers of traditional opaque beer, acquired packing machinery from Packaging Ltd under a finance lease agreement. The cash price of the machinery is K3,855,000 while the total finance lease based price was K5,000,000. They agreed a deposit payment of K 1.0 million, and the balance to be paid in four equal annual installments. 15% interest rate per annum chargeable in arrears was also agreed. Depreciation is to be provided on the cost of the machinery at 25% using straight line method.

**Required:**

- (i) Prepare a schedule of repayments clearly showing interest and capital repayments over the **four** year period. **5 Marks**
- (ii) Prepare the Packaging Ltd account as it would appear in the ledger of Mbiso Ltd. **7½ Marks**
- (iii) Prepare a statement of financial position extract showing the Machinery financial figures in the third year of the lease agreement. **1½ Marks**

**(TOTAL : 20 MARKS)**

**Continued/.....**

6. A supermarket trading company operates from a head office in Lilongwe and a branch in Mzuzu. The following trial balance has been extracted from the books of accounts as at 31 December 2008.

	Lilongwe Office		Mzuzu Office	
	Dr	Cr	Dr	Cr
	K	K	K	K
Purchases and sales	457,000	425,000		218,500
Goods sent to branch		190,000	187,500	
Drawings	20,000			
Provision for doubtful debts		4,500		1,250
Current accounts	87,500			60,000
Distribution expenses	40,250		2,500	
Administration expenses	100,000		8,250	
Trade debtors and creditors	30,000	25,000	30,000	
Cash and bank	7,750		6,500	
Capital		207,000		
Non current at assets	175,000		50,000	
Accumulated depreciation		70,000		15,000
Stocks	4,000		10,000	
	<u>921,500</u>	<u>921,500</u>	<u>294,750</u>	<u>294,750</u>

Additional information

- (1) Physical stocks as at 31 December 2008 were valued at K 6,000 for the head office and K 7,500 for the branch.
- (2) All purchases are made at head office. Goods are invoiced to branch at cost plus 25%.
- (3) There was K 25,000 cash in transit from the branch to head office.
- (4) Depreciation is provided on straight line basis on cost. The non current assets for the head office were 4 years old and those for the branch were 3 years old as at 1 January 2008. No additional assets have been purchased since.

**Required:**

- (a) Prepare in columnar format, the head office and branch Income Statement for the year ended 31 December 2008. **11½ Marks**
- (b) Prepare a Combined Statement of Financial Position as at 31 December 2008. **8½ Marks**

**(TOTAL : 20 MARKS)**

7. (a) Identify the accounting concept applicable to each of the following situations and briefly explain how they are applied.
- |       |  |                        |
|-------|--|------------------------|
| (i)   | Provision of depreciation in accounts.   | <b>2 Marks</b>         |
| (ii)  | Preparation of accounts on historical cost basis.  | <b>2 Marks</b>         |
| (iii) | Management requiring that only 5% variance below book value of stock as against physical stock take value should be investigated | <b>2 Marks</b>         |
| (iv)  | Provision for doubtful debts in accounts.  | <b>2 Marks</b>         |
| (v)   | Recording of rental payment in advance in the accounts.  | <b><u>2 Marks</u></b>  |
|       |  | <b><u>10 Marks</u></b> |
- (b) Briefly explain the following accounting terms and give an example for each term.
- |       |                        |                        |
|-------|------------------------|------------------------|
| (i)   | Impairment loss        | <b>2 Marks</b>         |
| (ii)  | Agricultural produce   | <b>2 Marks</b>         |
| (iii) | Interim period         | <b>2 Marks</b>         |
| (iv)  | Substance over form    | <b>2 Marks</b>         |
| (v)   | Assets nationalization | <b><u>2 Marks</u></b>  |
|       |                        | <b><u>10 Marks</u></b> |

**(TOTAL : 20 MARKS)**

**E N D**