

Examination No. _____

THE PUBLIC ACCOUNTANTS EXAMINATION
COUNCIL OF MALAWI

2010 EXAMINATIONS

CERTIFICATE IN FINANCIAL ACCOUNTING
PROGRAMME

PAPER FA 4 : BUSINESS ACCOUNTING

TUESDAY 30 NOVEMBER 2010

TIME ALLOWED: 3 HOURS
9.00AM - 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. Answer **FIVE** question **ONLY**.
4. Each question carries 20 marks.
5. Marks will be awarded for neatness and layout. All workings forming part of your answers should be shown.
6. Begin **each** answer on a fresh page.
7. This question paper must **not** be removed from the examination hall.
8. **DO NOT OPEN THIS PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.**

This paper contains 5 pages

1. The trial balance for Zonse Limited for the month of March 2010 was compiled by a student accountant who has not yet completed her course in Accounting. The directors of the company have asked for your services to assist this student accountant in the preparation of financial statements.

Trial balance for Zonse Limited for the month of April 2010

	Dr K	Cr K
Capital	709,000	
Drawings	45,000	
Motor vehicles – Cost	350,000	
Motor vehicle – Accumulated depreciation	120,000	
Office Equipment – Cost		600,000
Equipment – Accumulated depreciation		200,000
Inventories as at 1 December 2008		180,000
Receivables		320,000
Provisions for doubtful receivables	30,000	
Payables	210,000	
Cash	30,000	
Sales	1,200,000	
Purchases		740,000
Returns inwards		30,000
Carriage inwards		50,000
Salaries and wages		40,000
Discounts received	25,000	
Discount allowed	15,000	
Electricity		14,000
Rent and rates		10,000
Insurance costs		15,000
Carriage outwards		20,000
Advertisement costs		25,000
Bad debts		10,000
	<u>2,494,000</u>	<u>2,494,000</u>

Required:

- (a) Prepare a corrected trial balance for Zonse Limited. **12 Marks**
- (b) Name and briefly describe, with an example, any **four** errors that do **not** affect the trial balance. **8 Marks**

(TOTAL: 20 MARKS)

Continued/.....

2. (a) Define the term “accounting”. **2 Marks**
- (b) Describe the **five** basic elements of financial statements. **10 Marks**
- (c) Prudence and going concern are fundamental accounting concepts. Mention **four** other fundamental accounting concepts. **4 Marks**
- (d) Financial statements provide useful financial information to various stakeholders. Shareholders are the primary users of financial statements.

Required:

Mention any **four** pieces of information which shareholders obtain from the financial statements. **4 Marks**

(TOTAL: 20 MARKS)

3. The following transactions relate to inventory movement for a certain retail shop in Mzuzu for the month of May 2010. The shop trades in clothing which they order from China.

1 May	Opening inventories 200 metres of clothing at K120/m
3 May	Purchased 650 metres of clothing at K125/m
4 May	Sold 100 metres at K250/m
7 May	Sold 400 metres at K250/m
10 May	Purchased 400 metres at K130/m
15 May	Purchased 200 metres at K132/m
20 May	Sold 700 metres at K250/m
25 May	Sold 150 metres at K250/m
30 May	Purchased 300 metres at K135/m
31 May	Sold 200 metres at K250/m

Required:

- (a) Prepare the analysis showing the valuation of the closing value of the clothing as at 31 May 2010 using the Last In First Out (LIFO) method. **10 Marks**
- (b) Prepare a trading account showing the gross profit made in the month of May 2010. **4 Marks**
- (c) Mention **three** shortcomings of the Last In First Out (LIFO) as a method of inventory valuation. **3 Marks**
- (d) State any **three** control measures required in minimizing loss of inventories. **3 Marks**

(TOTAL : 20 MARKS)

Continued/.....

4. Kali industry produces juice from Malambe fruits in Mwanza district. The main product is called Khatikhathi juice and is produced through a number of processing.

In the month of April 2010, the following transactions took place:

Raw materials used (Juice concentrates) 12,000 litres at K2.50/litre

Labour costs – Skilled labour 2,000 at K7/hr

- Unskilled labour 5,000hrs at K3/hr

Overheads were absorbed at the rate of K2.50 on the basis of the unskilled labour hour.

Normal loss was set at 10% of the input materials.

Output at the end of April was 11,500 litres.

Required:

- (a) Prepare the process account for the month of April 2010. **11 Marks**

- (b) At the beginning of the month, the company had opening inventories of 2,100 litres valued at K5.50 litre. Of the 11,500 litres produced, only 9,700 litres were sold for K9 per litre. Prepare a trading account for the month of April 2010. **6 Marks**

- (c) Define by-products and mention any **two** ways in which by-products are accounted for. **3 Marks**

(TOTAL: 20 MARKS)

5. Write short notes on the treatment of the following accounting transactions. The notes should include definition, accounting recognition and how the transactions should be presented in the financial statements.

- (a) Provision for doubtful debts **5 Marks**

- (b) Property, plant and equipment **5 Marks**

- (c) Bank overdraft **5 Marks**

- (d) Mortgage **5 Marks**

(TOTAL: 20 MARKS)

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6. The information below relates to non-current assets of a company which operates in Kasungu for the year to 31 May 2010.

Buildings	K
Cost brought forward	900,000
Accumulated depreciation brought forward	40,000
Motor vehicles	
Cost brought forward	700,000
Accumulated depreciation brought forward	120,000
Additions during the year	200,000
Disposals	
-cost	150,000
-NBV	80,000
-Proceeds	110,000
Equipment	
Cost brought forward	450,000
Accumulated depreciation brought forward	100,000
Additions during the year	140,000
Disposal	
-cost	110,000
-NBV	50,000
-Proceeds	70,000

The depreciation policy for the company is as follows:

Buildings	2% per annum on cost
Motor vehicles	20% straight line
Equipment	10% reducing balance method

Required:

Prepare a non-current asset schedule clearly showing the movements in both the cost and depreciation for the categories of the assets listed.

(TOTAL: 20 MARKS)

Continued/.....

7. (a) The receivable balances and the rate for provision for doubtful debts for a certain Rice Milling Company in Limbe was as follows:

	2007	2008	2009
Receivables	410,000	580,000,	600,000
Provision rate	4%	7%	5%

Required:

- (i) Open a T account for the provision of doubtful debts. **6 Marks**
- (ii) Prepare both the income statement and balance sheet extract showing the treatment and presentation of the receivables and the provision for doubtful debts. **7 Marks**
- (b) What is the difference between a general and a specific provision for a doubtful debt? **2 Marks**
- (c) Prepare journal entries for the following transactions relating to receivables:
- (i) An amount of K12,600 previously written off as a bad debt has been recovered in the current year.
- (ii) A customer is to settle his debt balance worth K45,000. The company has offered a 5% discount for early settlement. **5 Marks**
- (TOTAL: 20 MARKS)**

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