STRICTLY CONFIDENTIAL

THE PUBLIC ACCOUNTANTS EXAMINATION COUNCIL OF MALAWI

2010 EXAMINATIONS

ACCOUNTING TECHNICIAN PROGRAMME

PAPER TC 1: ACCOUNTING/1

TIME ALLOWED : 3 HOURS

SUGGESTED SOLUTIONS

1.

(a)

Mark up is profit shown as a percentage or fraction of the cost price, while margin is profit shown as a percentage or fraction of the selling price. Thus when shown as a fraction or percentage of the cost price, the gross profit is known as the mark-up and it is margin when shown as a fraction or percentage of the selling price.(i) Example: Cost price (K4) + Gross Profit (K1) = Selling price (K5).

Mark	x-up = Gross profit, as a fraction	tion <u>1</u> ; as a perce	ntage $1 \ge 100 = 25\%$
	Cost price	4	4
	-		
Marg	gin = <u>Gross profit</u> , as a fract	ion <u>1</u> ; as a percen	tage $\underline{1} \ge 100 = 20\%$
	Selling price	5	5
(i)		K	
(1)	Opening head helenee	(1.240)	
		(1,240)	
	Lodged	/6,846	
	Payments made	(75,040) bal	ancing figure
	Closing bank balance	566	
(ii)		K	
	Mark Marg (i)	 Mark-up = <u>Gross profit</u>, as a fract Cost price Margin = <u>Gross profit</u>, as a fract Selling price (i) Opening bank balance Lodged Payments made Closing bank balance (ii) 	Mark-up= $\underline{Gross \ profit}_{Cost \ price}$ as a fraction $\underline{1}$; as a percent 4 Margin= $\underline{Gross \ profit}_{Selling \ price}$ as a fraction $\underline{1}$; as a percent 5 (i)K(i)KOpening bank balance Lodged Closing bank balance(1,240) $76,846$ Payments made Closing bank balance(ii)K

(11)		11
	Total lodged	76,846
	Add : Expenses	5,700
	Drawings	_7,800
		90,346
	Less : Gift	6,000
	Received from customers	84,346
		Κ
(iii)	Opening balance	1,676
	Add : Sales	84,030 balancing figure
		85,706
	Less : Cash received	<u>84,346</u>
	Closing balance	1,360
(iv)		K
	Payments made (i)	75,040
	Less: Expenses K3,400	·
	Drawings 2,000	5,400
		$\overline{69,640}$ = purchases on credit
		·

(v)			Κ		
	Sales		84,030		
	Opening inventory	K5,250			
	Purchases	69,640			
		74,890			
	Closing inventory	4,190			
	Cost of sales		<u>70,700</u>		
	Gross profit		<u>13,330</u>		
(vi)			Κ		
	Gross profit		13,330		
	Expenses (cash)	5,700			
	(bank)	3,400	9,100		
			4,230	4,230	
				X Y	
(vii)	Cost of sales $+20\%$	% = value o	fsales at 'no	rmal' price	
			K		
	Cost of sales		70,70	00	
	Mark up (20%)		14,14	0	

Cost of sales	70,700
Mark up (20%)	14,140
Sales at normal price	84,840
Actual sales	84,030
Thus reduction	810

2. (a) A business transaction is recorded by both a debit entry and a credit entry (also referred to as 'double entry') to fully reflect the effects of the transaction on the entity. Every transaction affects the entity in two ways. This is usually referred to as the 'dual aspect'. The two effects mean that the accounting equation (assets – liabilities = capital) will apply consistently to the entity. For example if expenses are paid in cash, the entity is affected by an increase in the expenses and a reduction in cash. The increase in expense will cause a reduction in profit, and therefore capital. Thus both assets and capital have reduced, and the accounting equation will continue to apply.

(b)	(i)	Tayanjana Mukhandiya Income statement for the ye	ear to 30 June 2	2010	
		·	V	V	
		Sales	K	205 117	
		Cost of solos		203,117	
		Opening inventory	11 620		
		Burchasos	108 520		
		Fuiciases	$\frac{100,339}{120,168}$		
		Closing inventory	120,100	106 504	
		Cross profit	15,004	$\frac{100,304}{08,613}$	
		Wages	33 552	90,015	
		Floatriaity	10 466	(0526 ± 0.00)	
		Rent	6,000	(9320 + 940) (7200 - 1200)	
		General expenses	4 788	(7200 - 1200)	
		Depreciation	25 196		
		Movement in allowance	178	80 180	
		Net Profit		18 433	
				<u></u>	
	(ii)	Current assets			
			К		
		Inventory 1	3,664		
		Receivables 1	8,265 (19885 -	- 1620)	
		Prepayment	1,200	,	
		Cash at bank	1,731		
			<u>34,860</u>		
		Capital			
			K		
		Opening balance	34,305		
		Profit for year	18,433		
		Drawings (2	29,800)		
		=	<u>22,938</u>		
	(iii)	Tayanjana Mukhandiya			
		Balance sheet as at 30 Jun	e 2010	7	17
			l (105	S	K
		Non-current assets (net)	(125	,980 - 25196 - 25196	5) /5,588
		Current assets	- 040)	34,800 47,510	
		Not current accests	+ 940)	47,510	(12.650)
		Net current assets			(12,030)
					<u>102,938</u>
					-0,000 22 938
					62,938
					02,750

(a)		ŀ	K	Κ
. /	Gross profit (no adjustment req	uired)		157,846
	Expenses (K157,846 – K51,024	106	5,822	
	Less: Payments to partners	30	,000	76,822
	5 1		<u></u>	81,024
	Net Profit			
(b)		K	Κ	K
	Net profit per accounts	Olanje	Papaya	81,024
	Less: Salary	18,000	12,000	
	Interest on capital (w)	10,000	5,600	
		28,000	17,600	<u>45,600</u>
	Residual profit			<u>35,424</u>
	Shared: Olanje $(\frac{2}{3})$ Paula $(\frac{1}{3})$	23,616	<u>11,808</u>	
		<u>51,616</u>	<u>29,408</u>	
	Warting(w)			
	working(w):			
	Interest on capital	Olanje	K125,000 x 8	% = K10,000
		Payaya	K70,000 x 8	% = K5,600
(c)		Olanje	Papaya	
		K	K	
	Balances at 1 May 2009	34,568	(23,741)	
	Salary	18,000	12,000	
	Interest on capital	10,000	5,600	
	Residual profit	<u>23,616</u>	11,808	
		86,184	5,667	
	Less drawings	<u>15,000</u>	15,000	
	Balances at 30 April 2010	<u>71,184</u>	<u>(9,333)</u>	

(d) The value of total net assets equals the total value of the partners' investment (i.e. the total of the capital and current accounts). Thus:

		Olanje	Papaya	
		K	Κ	
	Capital accounts	125,000	70,000	
	Current accounts	71,184	<u>(9,333)</u>	
Y		<u>196,184</u>	<u>60,667</u> = K	256,851

- (e) The clauses relating to accounting matters are:
 - As to capital; whether each partner should contribute a fixed amount or otherwise.
 - As to the division of profits and losses between the partners.

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- Whether the capitals are to be fixed, drawings and profits being adjusted on current accounts or capital accounts.
- Whether interest on capital or on drawings, or both, is to be allowed or charged before arriving at the profits divisible in the agreed proportions.
- Whether current accounts (if any) are to bear interest, and if so, at what rate.
- Whether partners' drawings are to be limited in amount.
- Whether partners are to be allowed remuneration for their services.
- The proper accounts shall be prepared at least once a year so that these shall be audited.
- That the accounts shall be binding on the partners when duly signed.
- The method by which the value of goodwill shall be determined in the event of any partner's death or retirement.
- Method of determining amount due to deceased partner.
- Treatment of insurance premiums.
- 4. (a) <u>Physical deterioration</u>: through wear and tear and through erosion, rust, rot and decay.

<u>Economic factors</u>: through obsolescence and inadequacy. <u>The time factor</u>, say for assets which have a legal life fixed in terms of years e.g. leases and patents. <u>Depletion</u> for assets of a wasting character such as natural resources from where raw materials are extracted.

(b)	(i)		Land	Buildings	Machinery	Total
			K	Κ	Κ	K
		Cost brought forward	850,000	1,205,000	748,000	2,803,000
		Additions at cost		68,000	145,000	213,000
		Disposals			(110,000)	(110,000)
			850,000	1,273,000	783,000	2,906,000
		Opening depreciation	-	289,200	356,000	645,200
		Eliminated disposal (w)			(53,608)	(53,608
\frown		Charge for year (w)		50,920	96,122	147,042
				340,120	398,514	738,634
		Net book value	<u>850,000</u>	932,880	<u>384,486</u>	<u>2,167,366</u>

Workings:

Machine bought in January 2007. Thus depreciation for years ended 30 September 2007, 2008 and 2009 = 3 years.

2007	=	Cost	K110,000 x 20%	= 22,000 depreciation for year
		Thus NB	V c/f = K88,000	
2008	=	b/f 88,00	0 x 20%	= 17,600 depreciation for year
		Thus NB	V c/f = K70,040	

2009	=	b/f 70,040 x 20%	= <u>14,008</u> depreciation for year
		Thus NBV $c/f = K56,032$	
		Total depreciation	= 53,608

Depreciation charge:

5.

Buildings cost K1,273,000 \div 25 years = K50,920 per annum

	Machinery Cost Depreciation NBV	K783,000 K302,392 (356,000 – 53,608) K480,608 x 20% = K96,122 for year
(ii)	Cost of machine Depreciation to date of dispo	K110,000 osal <u>53,608</u>
	NBV at disposal	56,392
	Proceeds	55,000
	Loss	<u>1,392</u>

(iii) Depreciation is required to reflect the economic benefits derived from a non-current asset during the period. The provision for depreciation is required under the accruals (or matching) concept, as this will match the cost of economic benefits with the revenue generated. This means that for all assets which are consumed, depreciation must be provided. Freehold land is therefore an exception to the rule that non-current assets must be depreciated, since it is not consumed. It should be noted that this is entirely separate to the issue of any increase in valuation.

Limbanani Political Association Receipts and payments account for the year ended 31 December 2010

	K			K
Jan 1 Balance b/f	470,000	Election expenses		720,000
Dec 31 Subscriptions	835,000	Cost of premises	3,000,000	
Donations	520,000	Legal expenses	105,000	
Elections fund	850,000		3,105,000	
Sale of securities	1,250,000	Less: mortgage	1,500,000	
Interest received	35,000			1,605,000
Sale of literature	75,000	Building society payments		80,000
Overdraft c/d	615,000	Alterations and decorations		420,000
		Office furniture		170,000
		Agents salary		700,000
		Office salary		350,000
		Rent and rates		170,000
		Meetings, etc		165,000
		Stationery etc		150,000
		Cost of literature		120,000
	4,650,000			4,650,000

Limbanani Political Association Income and Expenditure Account For the year ended 31 December 2010			
	K	K	К
Income Subscriptions receivable Interest on investments			760,000 35,000
Expenditure Agent's salary Office salaries Rent and rates Stationery, postage and sundr Meetings, etc Cost of literature distributed Less profit on sales Interest on mortgage Depreciation of office furnitu	ies 60,000 <u>15,000</u> ıre	650,000 350,000 120,000 150,000 135,000 45,000 39,000	795,000
Excess of expenditure over incor	ne		<u>1,534,000</u> _(739,000)
 (b) Limbanani Political Association General fund Balance at January 1 Profit on sale of investments Donations Less: excess of expenditure of Election fund Balance at January 1 Add donations Less election expenses 	ver income for ye	$\begin{array}{r} K \\ 2,580,000 \\ 250,000 \\ \underline{520,000} \\ 3,350,000 \\ 3,350,000 \\ \underline{2,611,000} \\ 15,000 \\ \underline{850,000} \\ 865,000 \\ \underline{720,000} \end{array}$	<u>145,000</u> <u>2,756,000</u>
 (a) Payables ledger control K (i) Discount omitted 20 (ii) Daybook overcast 90 Corrected balance 48,753 48,861 	Balano (iii) Chequ <u>3</u> (iv) Invoic <u>3</u>	$\begin{array}{c} K \\ \text{ce as stated} \\ \text{48,} \\ \text{re s issued} \\ \text{ce omitted} \\ \hline \underline{48,} \\ \end{array}$	395 9 4 <u>59</u> 863

48,863

6.

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<u>3</u>
(

Listing agreed to balance on nominal ledger

(c) A payables Ledger reconciliation is carried out for the following reasons:

- to identify errors in the accounting records.
- to provide a corrected figure for inclusion in the final accounts.
- to calculate missing data if incomplete records are maintained.
- (d) Receivables control account that focuses on customers as opposed to suppliers in the case of payables.
- (e) Control accounts are maintained to:

(b)

- <u>Check the accuracy of postings</u>

(if the balance on the control account agrees with the total of the balances on the individual accounts in the personal ledger, we have some assurance that postings have been correctly completed).

- Assist in locating errors (if the control account balance is compared to the total of the balances in the individual accounts in the personal ledger in a regular basis, there will be fewer transactions to be checked when errors have been made).
- <u>Provide an internal check/division of duties</u> (responsibility for specific personal ledgers – or sections of such ledgers – as well as the posting of the control account can be allocated to different individuals. The posting of the control account then acts as a check on the postings to the personal ledgers).
- 7. (a) Users of final accounts, and their needs, include:

USER	REASON
Owners Managers	to asses the performance of managers to understand the current position of the business, and to plan future actions
Customers	to assess the ability of the business to continue to supply goods or services
Suppliers Lenders	to assess the credit worthiness of the business to assess the ability of the business to make the required repayments

Employees to assess career prospects and job security

- (b) (i) A bank reconciliation is carried out to uncover and correct any errors in the recording of payments made from the bank account and amounts lodged to the bank account. It will also highlight any transactions initiated by the bank which have not yet been recorded in the entity's accounting records.
 - (ii) The reconciliation statement will include the balance on the bank statement, the balance on the ledger, the value of cheques issued but not yet presented at the bank and the value of lodgements which have not yet been processed by the bank.
- (c) A provision is made <u>when there is a degree of uncertainty</u> relating to either the amount which must be paid, or the <u>date on which payment must be made</u>. As a provision is essentially a liability over which there is a degree of uncertainty, <u>prudence dictates that the best estimate of the amount</u> which will eventually be paid, should be <u>recognized in the statement of financial position</u>.
- (d) First In, First Out (FIFO) whereby the first goods to be received are first to be issued.

Last In, First Out (LIFO) whereby as each issue of goods is made they are said to be from the last lot of goods received before that date. Where there is not enough left of the last lot of goods, then the balance of goods needed is said to come from the previous lot still unsold.

Average cost method (AVCO), whereby with each receipt of goods the average cost for each item of stock is calculated.

 (e) Direct materials Direct labour
 Direct expenses
 Indirect manufacturing costs 9

END