

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

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

**2010 EXAMINATIONS**

**ACCOUNTING TECHNICIAN PROGRAMME**

**PAPER TC 1: ACCOUNTING/1**

**THURSDAY 9 DECEMBER 2010**

**TIME ALLOWED : 3 HOURS**  
**09.00AM - 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 are **not** 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 8 pages

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

1. (a) State the difference or similarity between “mark-up” and “margin”. Give a suitable example. **5 Marks**
- (b) Chako Nchako owns a small business. He has provided you with the following information about the business for the year to 30 November 2010:
- (1) During the year K76,846 was paid into the business bank account. This included a gift of K6,000 received from a relative, with the balance being receipts from customers.
  - (2) Before banking the cash, Chako paid business expenses amounting to K5,700 in cash and took cash drawings of K7,800.
  - (3) Chako does not hold a balance of cash on hand.
  - (4) In addition to payments to suppliers, payments out of the bank account included business expenses of K3,400 and drawings of K2,000.
  - (5) Chako does not receive any credit from his suppliers.
  - (6) Chako normally adds a mark-up of 20% to calculate his selling price, but on some occasions, he reduces his selling price to make a sale.
  - (7) Chako’s current assets and liabilities were as follows:

	1 December 2009	30 November 2010
	K	K
Inventories	5,250	4,190
Receivables	1,676	1,360
Cash at bank	-	566
Bank overdraft	1,240	-

**Required:**

For the year to 30 November 2010, calculate Chako’s:

- (i) total payments made from the bank account; **2 Marks**
- (ii) payments received from customers; **2 Marks**
- (iii) sales; **2 Marks**
- (iv) purchases; **2 Marks**
- (v) gross profit; **2 Marks**
- (vi) net profit. **2 Marks**
- (vii) reduction in sales resulting from occasional reductions in the selling price. **3 Marks**

**(TOTAL : 20 MARKS)**

**Continued/.....**

2. (a) Explain how and why a business transaction is recorded as both a debit entry and a credit entry. Give a suitable example. **4 Marks**

- (b) Tayanjana Mukhandiya, a sole trader, has extracted the following trial balance from the accounting records of her business, for the year ended 30 June 2010:

	Debit K	Credit K
Sales		205,117
Purchases	108,539	
Wages	33,552	
Electricity	9,526	
Rent	7,200	
General expenses	4,788	
Non-current assets, at cost	125,980	
Accumulated depreciation at 1 July 2009		25,196
Inventory at 1 July 2009	11,629	
Trade receivables	19,885	
Receivables allowance		1,442
Cash at bank	1,731	
Trade payables		46,570
Capital at 1 July 2009		34,305
Loan (due for repayment in 2015)		40,000
Drawings	29,800	
	<u>352,630</u>	<u>352,630</u>

Tayanjana also has the following additional information:

- (1) Depreciation for the year has been calculated as K25,196
- (2) Electricity accrued at 30 June 2010 is K940
- (3) Rent was prepaid by K1,200 at 30 June 2010
- (4) Inventory at 30 June 2010 was valued at K13,664
- (5) The receivables allowance is to be revised to K1,620.

**Required:**

- (i) Prepare Tayanjana's income statement for the year to 30 June 2010. **8 Marks**
  - (ii) Calculate the following figures, for inclusion in Tayanjana's balance sheet as at 30 June 2010:
    - current assets **2½ Marks**
    - capital balance **1½ Marks**
  - (iii) Prepare Tayanjana's statement of financial position as at 30 June 2010. **4 Marks**
- (TOTAL : 20 MARKS)**

3. A trainee accounts assistant in your office prepared draft accounts for the year ended 30 April 2010 for Olanje Jere and Papaya Gama who are in partnership. The draft accounts report a gross profit of K157,846 and a net profit of K51,024. Cash payments of K15,000 to each partner had been included in expenses.

At 1 May 2009 the balances in the partners' capital and current accounts were as follows:

	Olanje K	Papaya K
Capital account	125,000 (credit)	70,000 (credit)
Current account	34,568 (credit)	23,741 (debit)

The partnership agreement includes the following terms:

	Olanje	Papaya
Share of profit and losses	$\frac{2}{3}$	$\frac{1}{3}$
Salary	K18,000	K12,000
Interest on capital (per annum)	8%	8%

The partnership agreement also states that the partners' capital account balances will remain fixed, and the balances in the partners' current accounts should not be included in the calculation of interest or capital.

**Required:**

- Prepare the correct gross profit and net profit to be reported in the partnership income statement for the year to 30 April 2010. **2 Marks**
- Calculate the amount of profit which will be credited to each partner's current account for the year to 30 April 2010. **8 Marks**
- Calculate the balance in each partner's current account at 30 April 2010. **4 Marks**
- Calculate the total net assets of the partnership at 30 April 2010. **1 Mark**
- There are a number of general provisions affecting questions of accounts that should be contained in all partnership agreements, apart from any special circumstances.

Mention any **five** of such clauses.

**5 Marks**  
**(TOTAL : 20 MARKS)**

**Continued/.....**

4. (a) State how the following **four** factors may result in tangible non-current assets reducing in value:

- (i) Physical deterioration
- (ii) Economic factors
- (iii) The time factor
- (iv) Depletion.

**4 Marks**

- (b) At 1 October 2009 Tiyese had non-current assets as follows:

	Freehold land	Buildings	Machinery
	K	K	K
Cost	850,000	1,205,000	748,000
Accumulated depreciation	-	289,200	356,000

Tiyese's policy is to provide for a full year's depreciation in the year of acquisition, but no provision is made in the year of disposal. Depreciation is provided at the following rates:

- (1) Land: nil
- (2) Buildings are written off over 25 years, on the straight line basis, machinery at 20% per annum, on the reducing balance basis.
- (3) During the year to 30 September 2010, Tiyese added an extension to one of the buildings at a cost of K68,000. He also acquired a new machine, by paying the dealer K90,000 through a cheque, and trading-in an old machine at a cost of K55,000.
- (4) The machine traded-in was acquired in January 2007 at a cost of K110,000.

**Required:**

- (i) Prepare a schedule showing the value of Tiyese's non-current assets before deducting depreciation, the accumulated depreciation, and the net book value, as at 30 September 2010. **9 Marks**
- (i) Calculate the profit or loss on the machine which was traded in. **3 Marks**
- (iii) Explain why depreciation should be charged on non-current assets other than freehold land. **4 Marks**

**(TOTAL : 20 MARKS)**

**Continued/.....**

5. Limbanani Political Association recorded the following transactions for the year to 31 December 2010:

- (1) They started the year with K470,000 in the bank and ended with an overdraft of K615,000 which was secured by the deposit of investments with the bank.
- (2) They received subscriptions amounting to K835,000 of which K25,000 represented arrears, K760,000 current subscriptions, and K50,000 were subscriptions received in advance.
- (3) They received K520,000 donations to the general fund which had K2,580,000 in hand at 1 January. K850,000 was received as donations to the elections fund, which had K15,000 in hand at January 1, and out of which K720,000 was paid for election expenses. There was no separate bank account.
- (4) They held government securities at January 1, which cost K2,000,000. Half were sold for K1,250,000 and the balance were valued at K1,200,000 at December 31. These investments produced interest of K35,000 during the year.
- (5) Office premises were purchased during the year for K3,000,000 financed partly using a mortgage from a building society for K1,500,000. Legal expenses amounted to K105,000 and one instalment of K80,000 was paid to the society which included K45,000 as interest. Alterations and decorations to the premises cost K570,000 of which K150,000 was still owing.
- (6) Office furniture was valued at K150,000 at January 1. K240,000 worth of additional furniture was bought during the year of which K70,000 was still owing. Depreciation is estimated at 10% per annum.
- (7) K75,000 was received from the sale of literature, while K60,000 worth of literature was given away. The total cost of literature amounted to K120,000 and no stocks were left at the end of the year.

**Continued/.....**

(8) Other payments were:

Agents' salary and expenses	K700,000 (of which K50,000 related to 2011)
Office salaries	K350,000
Rent and rates	K170,000 (K50,000 was owing at January 3)
Meetings and propaganda	K165,000 (K30,000 for a meeting to be held in 2011)
Stationery, postage and sundries	K150,000

**Required:**

Prepare for Limbanani Political Association:

- (a) A receipts and payments account, and an income and expenditure account for the year ended 31 December 2010. **17 Marks**
- (b) The General and Election Funds as at 31 December 2010. **3 Marks**  
**(TOTAL : 20 MARKS)**

**Continued/.....**

6. The balance in the payables ledger control account of Chikhalidwe's nominal ledger is K48,395. The total of the listing of the balances in the personal ledger is K46,644. On checking, Chikhalidwe found the following reasons for the difference:

- (1) An cheque for K4,300 was paid to a supplier in full settlement of an invoice for K4,320. The discount was recorded in the personal account, but was not recorded in the nominal ledger.
- (2) The payables day book total for June was overcast by K90.
- (3) The total of cheques issued to suppliers was K78,056, but was posted to the control account as K78,065.
- (4) An invoice for K459 was entirely omitted from the books.
- (5) A credit balance of K870 in a supplier's account was included in the casting as a debit balance of K780.

**Required:**

- (a) Prepare the payables ledger control account, including any necessary correcting entries.  
(NB you must use a format which clearly shows whether each entry is a debit or a credit entry). **4 Marks**
- (b) Prepare a corrected total of the listing of the balances in the personal accounts to agree with the corrected payables ledger control account balance. **5 Marks**
- (c) Mention any **three** reasons for carrying out a payables ledger reconciliation. **3 Marks**
- (d) Mention **one** other example of control accounts and its similarity to the payables control account. **2 Marks**
- (e) Mention and explain **three** reasons for maintaining control accounts. **6 Marks**  
(TOTAL : 20 MARKS)

**Continued/.....**

7. (a) Mention **two** users of the final accounts of a business, and **one** reason for each user being interested in the final accounts. **4 Marks**
- (b) (i) State **two** reasons for carrying out a bank reconciliation. **2 Marks**  
(ii) Mention **two** items which may appear in the reconciliation statement. **2 Marks**
- (c) (i) Define the term 'provision'. **2 Marks**  
(ii) How should a provision be treated when preparing financial statements? **2 Marks**
- (d) Briefly describe any **two** main methods of inventories valuation. **4 Marks**
- (e) Mention the **four** elements that comprise the production cost of goods completed that is debited to the manufacturing account. **4 Marks**  
**(TOTAL : 20 MARKS)**

**END**