

STRICTLY CONFIDENTIAL

THE PUBLIC ACCOUNTANTS EXAMINATION
COUNCIL OF MALAWI

2011 EXAMINATIONS

CERTIFICATE IN FINANCIAL ACCOUNTING
PROGRAMME

PAPER FA 3: BUSINESS KNOWLEDGE

(JUNE 2011)

TIME ALLOWED: 3 HOURS

SUGGESTED SOLUTIONS

J2011M

SECTION A**Answer TWO questions ONLY from this section**

1.
 - (a) Barter is the exchange of one good for another.
 - (b) Barter, as a medium of exchange, has the following problems:
 - (i) A double coincidence of wants – it is difficult to have two minds each wanting what the other brought to the market.
 - (ii) Valuation of commodities is difficult as some goods are not readily divisible.
 - (iii) It limits the degree of specialization as people resort to producing a variety of things they need themselves due to the problem of double coincidence of wants.
 - (c) Four attributes of money are:
 - (i) Acceptability – must be generally accepted as a means of exchange.
 - (ii) Recognisability – should be recognized internally and externally.
 - (iii) Non-counterfeit – it should not be easily counterfeited.
 - (iv) Portability – money should be easy to carry i.e. portable.
2.
 - (a) Multinational companies have come into existence for the following reasons:
 - (i) A need to avoid tariffs.
 - (ii) A need to achieve greater efficiency by producing locally as compared with exporting.
 - (iii) Need to reduce costs by producing where materials are found.
 - (iv) A need to avoid losing business to licenced producers who might turn into competitors.
 - (b) Two advantages of co-operative societies are:
 - (i) Provide stability of trade which results from the loyalty of members who support the movement.

- (ii) They are democratically managed.
 - (iii) There are no conflicts of interests since the customers and profit receivers are the same and one person.
- (c) Three disadvantages of co-operative societies are:
- (i) Lack of business experience of many members of the committee leads to inefficient management.
 - (ii) Some co-operative societies use some funds for political purposes.
 - (iii) They compete unfairly against other retail traders because their profits are exempted from corporation tax.
- (d) Parastatal chief executives are appointed by the State President.
- (e) The State President appoints parastatal's boards in Malawi.
3. (a) Meanings of share capital terms:
- (i) Nominal share capital is the maximum amount of money a company is allowed to raise by issuing shares.
 - (ii) Issued share capital is the nominal value of shares issued or held by shareholders.
 - (iii) Called-up capital is the proportion of issued share capital that the company has asked the shareholders to pay.
 - (iv) Paid-up capital is the proportion of issued share capital that is paid for.
- (b) Joint companies are regulated by:
- (i) Companies act
 - (ii) Company powers in the Memorandum of Association and Articles of Association.
 - (iii) Department of Trade and Industry.
- (c) Three companies incorporated by statute in Malawi are:
- (i) ESCOM
 - (ii) MBC
 - (iii) Malawi College of Accountancy.

SECTION B

Answer THREE questions ONLY from this Section

4. (a) Principles of insurance:
 - (i) Utmost good faith: each party to an insurance contract must make full disclosure of all material facts.
 - (ii) Insurable interest: insurance cannot be given unless the insured has an interest in whatever is being insured, so that he/she will suffer financial consequences if loss occurred.
 - (iii) Proximate cause: states that a claim will be met only if the loss suffered was a direct consequence of the insured risk happening.
- (b) Importance of warehouses with regard to:
 - (i) Seasonal goods: storage facilities are needed to make seasonal goods available during non-productive seasons.
 - (ii) Saving transport costs: warehouses enable handling of bigger car loads hence reducing transport costs.
 - (iii) Quality of products: storage sometimes improves quality e.g. certain wines and tobacco.
 - (iv) Consumer demand – a warehouse is necessary to store goods to supply to consumers' needs immediately on demand.
- (c) Aids to trade:
 - (i) Insurance: provides protection against the consequences of some events which would upset the plans of a business person.
 - (ii) Advertising: increases or at least maintain the sales of a product or service.
 - (iii) Transport: raw materials, products, goods and people are moved to relevant locations for business to take place.
5. (a) An invitation to treat in law of contract is an indication that someone is prepared to receive offers with the view to forming a binding contract.

- (b) (i) Advertisements: an advertisement of goods is an attempt to induce offers and is therefore classified as an invitation to treat.

Case: Patridge v Crittenden 1968.

Facts of the case and court determination.

- (ii) Exhibition of goods for sale:
Displaying goods in a shop constitutes inviting customers to make offers to purchase.

Case Fisher v Bell or

Pharmaceutical Society of Great Britain v Boots Cash Chemists (Southern) 1952.

Fact of either case and court determination.

- (c) The general rule is that acceptance must be communicated to the offeror and is not effective until this has been done.

- 6. (a) Three parties involved in an agency contract are:

- (i) Principal
- (ii) Agent
- (iii) Third party

- (b) In Great Northern Railway v Swaffield (1874) S's horse was fed by the railway company (claimant) due to delayed collection and the company claimed the costs of feeding and stabling. The court held that the company's claim of having turned into an agent of necessity by feeding and stabling the horse due to failure to collect the horse on time be upheld. The company's action was reasonable and prudent.

- (c) Duties of an agent:

- (i) Skill: A paid agent undertakes to maintain the standard of skill and care to be expected of a person of his profession.
- (ii) Obedience: The agent must act strictly in accordance with his/her principal's instructions in so far as these are lawful and reasonable.
- (iii) Personal performance: Generally, an agent owes a duty to perform his/her task himself/herself and not to delegate to another.

- (iv) Accountability: An agent must both provide full information to his/her principal of his/her agency transactions and account to the principal all moneys arising from them.
- 7.
- (a) The 'doctrine of precedent' in law states that once a matter has been decided (by one of the higher courts) it becomes precedent; the principle can later be applied to relevant cases.
 - (b) Definitions in law:
 - (i) Claimant: Is the person who complains or brings an action asking the court for relief.
 - (ii) Defendant: Is the person against whom a civil action is brought or who is prosecuted for a criminal offence.
 - (iii) Ratification: Is an equitable remedy in which the court can order a document to be altered so that it reflects the parties true intentions.
 - (c) One would appeal to the Supreme Court of Malawi if not satisfied with the ruling of a High Court.
 - (d) Four essential elements of a contract are:
 - (i) The parties must have an intention to create legal relations between themselves.
 - (ii) There must be offer and acceptance.
 - (iii) The obligations assumed by each party are supported by consideration given by the other.
 - (iv) The parties must have the necessary capacity to enter into an agreement and they must have genuinely consented to the terms of the contract.
 - (e) A voidable contract is a contract which one party may avoid, that it terminates at his/her option. The contract is treated as valid unless and until it is avoided.

END