

STRICTLY CONFIDENTIAL

THE PUBLIC ACCOUNTANTS EXAMINATION
COUNCIL OF MALAWI

2013 EXAMINATIONS

CERTIFICATE IN FINANCIAL ACCOUNTING
PROGRAMME

PAPER FA 3: BUSINESS KNOWLEDGE

MONDAY 2 DECEMBER 2013

TIME ALLOWED: 3 HOURS
2.00 PM - 5.00 PM

SUGGESTED SOLUTIONS

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

1. (a) The advantages of being specialized are:
 - (i) It increases and sharpens skills with repetition.
 - (ii) It saves time and thus increases output as a result of better skills.
 - (iii) There is time saving in training of factory workers as a new worker finds it easy to internalize repetitive task than a set of processes in an unspecialized environment.
 - (iv) It makes possible a much greater use of machinery.
 - (v) There is saving of skill in that you can use low skilled workforce on a repetitive task and assign the high skilled workforce to more demanding tasks.
- (b) The following may lead to inefficiencies in individual specialization:
 - (i) The job that an individual could do best may not be available.
 - (ii) The individual may not wish to do the job for which the employer can expect the best economic reward.
 - (iii) The individual may be a bad judge of what he/she is best in.
- (c) The way payments are made using the following:
 - (i) Credit transfer – the customer makes out a cheque or instruction for the total amount of the payments with payees' bank details. The bank debits the customer's account and credits the various payees to the tune of the sum on the cheque or instruction.
 - (ii) Banker's draft – a customer instructs or draws a cheque to his/her banker to pay a creditor. The bank issues a cheque from its account payable to the creditor, this cheque cannot bounce.
 - (iii) Standing order – a customer completes a form telling the bank what sum to pay from the customer's account, to whom, and when. The bank will be making these payments until told otherwise.

2. (a) Four types of public warehouses are:
- (i) Those that store household goods and personal belongings.
 - (ii) Those that store general merchandise.
 - (iii) Those that provide cold storage.
 - (iv) Those that specialize in a particular commodity.
- (b) The main purpose of insurance is to provide cover against unforeseen events which could upset the plans of an insured person.
- (c) The doctrine of proximate cause states that a claim will be met only if the loss suffered was a direct consequence of the insured risk happening.
- (d) Two types of :
- (i) Life insurance are:
 - Whole life policies
 - Term policies
 - Endowment policies.
 - (ii) Marine insurance apart from accident insurance are:
 - Hull insurance
 - Cargo insurance
 - Freight insurance.
3. (a) Two factors that restrict Malawians from electronic trading are:
- (i) Inadequate knowledge on electronic trading.
 - (ii) Inadequate Information Technology (IT) infrastructure like electronic point of sale (POS) internet facilities and products, bank facilities like debit/credit cards.
 - (iii) High charges associated with electronic trading levied by banks and internet service providers.
- (b) A co-operative society is an association of persons, producers or consumers, who come together voluntarily to achieve some common purpose.
- (c) Four major forms of co-operative societies are:
- (i) Consumers' co-operatives.

- (ii) Agricultural co-operatives.
 - (iii) Credit union.
 - (iv) Co-operatives of housing societies.
 - (v) Marketing co-operatives.
- (d) Defining terms in trade:
- (i) Producers' co-operative is where workers pool their funds to own and operate the enterprise where they work. The earnings are divided among workers according to an agreed scale;
 - (ii) Credit unions are financial institutions that are owned and controlled by their members who contribute money as capital.
- (e) Outsourcing in business is the contracting out of a business process or service which an organization may have previously performed internally or has a new need for, to an independent organisation from which the process or service is purchased.

SECTION B

Answer THREE questions ONLY from this Section

4. (a) A bill of exchange is discounted as follows:
- The bank buys a bill of exchange by giving the seller value less interest for the period between the sale and the bill's due date.
 - The bank then reimburses itself on the maturity date by debiting the account of the acceptor on the bill.
- (b) Four reasons why multinational companies have developed over the years are:
- (i) A need to avoid tariffs which reduce profitability.
 - (ii) A need to achieve greater efficiency by producing locally, in say country B, as compared to exporting to country B from country A where the multinational has another production facility.
 - (iii) A need to reduce costs and competition by producing where raw materials and markets are found.

- (iv) A need to avoid losing business to licensed producers who might turn into competitors.
 - (c) A letter of credit is a binding document that a buyer can request from his/her bank in order to guarantee that the payment for goods will be transferred to the seller.
 - (d) Three duties of the customs and excise department are:
 - (i) To control bonded warehouses.
 - (ii) To prevent the import of prohibited goods.
 - (iii) To ensure that the amount of certain imported goods does not exceed the limit of any relevant quota.
 - (iv) To examine incoming goods and check them with the covering documents and to assess and collect any duty payable.
5. (a) Two parties that can take their disputes to the Industrial Relations court are:
- (i) Employee
 - (ii) Employer
- (b) Two terms applied to mean a contract of hire are:
- (i) A lease.
 - (ii) A bailment.
- (c) Four ways of making a contract of sale are:
- (i) In writing with or without a seal.
 - (ii) By word of mouth.
 - (iii) By conduct of the parties.
 - (iv) Partly by word of mouth and partly in writing.
- (d) Two differences between a hire purchase and a sale are:
- (i) Hire purchase is a hire with an option to purchase. In a sale property in the goods is transferred or is agreed to be transferred.
 - (ii) In a hire purchase agreement, the hirer acquires no title to the goods and cannot transfer title to third parties while in a sale the buyer acquires title to the goods and can transfer to third parties.

6. (a) A lay-by scheme is a contract of sale between a seller and a consumer. The seller agrees to hold goods until the total selling price is paid by instalments within a fixed period.
- (b) A special agent is an agent whose authority is limited to the performance of a specific act.
- (c) A universal agent is appointed by the power of attorney.
- (d) “*Del Credere* agent is
- an agent who guarantees to his/her principal that the buyers he finds will pay for the goods sold to them.
 - therefore if the buyer fails to pay, the agent will have to pay on their behalf.
- (e) A negotiable instrument is a piece of paper that represent property rights and are transferable by delivery or endorsement.
- (f) Three circumstances that may lead to the treatment of a bill of exchange as “dishonor by non-acceptance” are when:
- (i) The drawee is dead or bankrupt.
 - (ii) The drawee is a fictitious person.
 - (iii) The drawee is a person not having capacity to contract.
7. (a) A court will be looking for the following three elements as evidence of a contract between Mr Abwenzi and Mrs Mbwiye:
- (i) whether there was an agreement usually made by offer and acceptance.
 - (ii) whether there was consideration i.e. something of value given in exchange for the item.
 - (iii) whether the parties had an intention to create a legal relationship between themselves.
- (b) This was a written contract as communication was by SMS.
- (c) (i) An offer was made by Mr Abwenzi.
- (ii) A counter offer was made by Mrs Mbwiye.
- (iii) An acceptance was made by Mr Abwenzi.

- (d) Mr Abwenzi made an offer when he accepted the K1,400 price tag as mere stating of price by Mrs Mbwiye was just an invitation to treat. Case: *Partridge v Crittenden 1968*.

Sending bank information was acceptance by Mrs Mbwiye. Consideration was the sum Mr Abwenzi deposited.

There was breach of contract by Mrs Mbwiye selling the puppy to Ms Papsa.

As K1,400 has been refunded, Mr Abwenzi has already been put to his pre-contractual condition. He may sue for specific performance under Sale of Goods Act.

END

NOT FOR SALE