

**STRICTLY CONFIDENTIAL**



**2014 EXAMINATIONS**

**CERTIFICATE IN FINANCIAL ACCOUNTING PROGRAMME**

**PAPER FA 3 : BUSINESS KNOWLEDGE**

**WEDNESDAY 3 DECEMBER 2014**

**TIME ALLOWED: 3 HOURS**

**SUGGESTED SOLUTIONS**

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

1. (a) Mr Tipate will have to choose from the following industries:
    - (i) Primary industries, and fees production belongs to this industry.
    - (ii) Secondary industries.
    - (iii) Tertiary industries.
  - (b) This is going to be indirect production where the producer Mr Tipate, has specialized in one product and he produces the product in question more than he needs. He will have to sell some of his products to find other producers' products.
  - (c) Specialization is a method of production where a business or area focuses on the production of limited scope of products or services in order to gain greater degrees of productive efficiency within the entire system of businesses or areas.
  - (d) Reasons for specialization by regions are:
    - (i) Availability of raw materials in a particular region.
    - (ii) Where sources of power are easily available.
    - (iii) Locally available trained labour force.
    - (iv) Easy access to markets within the region.
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2. (a) Mrs Wagwa will have the following advantages for operating as a sole trader:
    - (i) She will have managerial freedom to make quick decisions without consultations.
    - (ii) She will bear all the consequences of her actions alone and all profits will be hers.
    - (iii) It will be a simple business structure to manage.
    - (iv) No formal procedures will be required to set up the business except where the type of business requires licences.
    - (v) She will have personal contact with her customers and will be able to offer good personal services.

- (b) Her business would have the following advantages if listed as a joint stock company:
- (i) The company will be able to raise a large amount of capital as many members will subscribe.
  - (ii) The company will be able to exploit economies of scale due to large capital that can make large operations possible.
  - (iii) It will be possible for members, including Mrs Wagwa, to transfer membership by transferring shares.
  - (iv) Members will have limited liability in case the company is in debt.
  - (v) Mrs Wagwa and the other shareholders will enjoy quite sleep as management of the company will be separated from the owners of the company.
3. (a) The three principles of insurance are:
- (i) Utmost good faith
  - (ii) Insurable interest
  - (iii) Indemnity
- (b) The two sub-principles of insurance are:
- (i) Subrogation
  - (ii) Contribution
- (c) Mr Bengo will be assisted as follows with these policies:
- (i) Comprehensive policy: Accidental damage to Mr Bengo's business property, injury to himself or other employees, or loss or damage by the business on their property will be fully covered and compensated by this policy.
  - (ii) Fidelity guarantee: This policy may compensate Mr Bengo if an employee in his business embezzles some funds.
- (d) Three other forms of business units are:
- (i) Partnerships

- (ii) Statutory bodies
- (iii) Cooperative Societies

### **SECTION B**

#### **Answer THREE questions ONLY from this Section**

4. (a) Four advantages of advertising are:
- (i) It makes new products known to the public for the public to buy. s
  - (ii) It increases sales which in turn leads to higher profits.
  - (iii) It informs consumers of the availability of goods and their relative merits.
  - (iv) It helps consumers have better quality products as producers want to live by their advertisement standards.
- (b) Three utility services that Malawians are enjoying by pre-paying are:
- (i) Electricity
  - (ii) Water (Northern Region Water Board as of now)
  - (iii) Phone calls.
- (c) Three services that can be accessed using an Automated Teller Machine (ATM) card provided by a commercial bank are:
- (i) Cash withdrawal
  - (ii) Payment for utilities
  - (iii) Transfer of funds between bank accounts.
5. (a) Four types of goods under a contract of sale of goods are:
- (i) Existing goods
  - (ii) Future goods
  - (iii) Unascertained goods
  - (iv) Special goods
- (b) Four rules, as discussed in the Sale of Goods Act, relating to passing or transfer of property from the seller to the buyer to determine who bears the risk at any point in time are:

- (i) where future or unascertained goods are the subject matter of a contract, property in them does not pass until the goods have become ascertained.
  - (ii) where specific goods are sold but the seller has to put them in a deliverable state, property does not pass until they are put in a deliverable state and the buyer is aware of it.
  - (iii) where the sale of goods is unconditional, for specific goods in a deliverable state, property in the goods passes to the buyer immediately the contract is made.
  - (iv) where goods in a deliverable state, and are specific, are sold out, and it is the duty of the seller to weigh, measure, test etc. in order to determine the price thereof, property does not pass until the seller determines the price and buyer has knowledge thereof.
- (c) Two situations where a buyer is deemed to have accepted the goods are:
- (i) When the buyer intimates to the seller that he/she has accepted them.
  - (ii) When after a lapse of a reasonable time he/she retains the goods without intimating to the seller that he/she has rejected them.
6. (a) Two duties of a principal to his/her agent under law of Agency are:
- (i) To repay the agent's expenses and indemnify him/her against losses and liabilities.
  - (ii) To pay the agent any agreed remuneration for the agent's services.
- (b) Duties of an agent to his/her principal are:
- (i) To perform his/her services as agreed with the principal.
  - (ii) To maintain a standard of skill and care to be expected of a person in his/her profession.
  - (iii) To keep in confidence what he/she knows of his/her principal's affairs even after the agency relationship has ceased.

(iv) To provide full information of his/her agency transactions and account to the principal for all moneys arising from his/her agency dealings.

(c) Four sources of authority of an agent are:

- (i) Actual authority
- (ii) Apparent authority
- (iii) Agency of necessity
- (i) Ratification or subsequent authority.

7. (a) A contract between Ms Dengunde and Casgate Transport Company would be discharged under the following situations:

- (i) Performance: when each party has done his/her contractual obligations.
- (ii) Where the parties agree to cancel the contract before it has been completely performed on both sides.
- (iii) Breach of contract, where either Ms Dengunde or Casgate Transport Company, without lawful excuse, does not perform contractual obligations as agreed.
- (iv) Frustration, where it is impossible to perform the contract when it is made.

(b) A case under one of the situations in (a) above is:

- (i) Performance – *Cutter v Powell 1795*  
Or *Bolton v Mahadeva 1972*
- (ii) Agreement – *Head v Tattersall 1871*  
Or *Aberfoyle Plantations Ltd v Cheng 1960*
- (iii) Breach – *Poussard v Spiers*
- (iv) Frustration – *Krell v Henry 1903*  
Or *Taylor v Caldwell 1863*  
Or *Re: Shipton, Anderson and Company, etc 1915*

(c) Four remedies that are available for breach of contract are:

- (i) Compensation for loss

- (ii) Rescission
  - (iii) Injunction
  - (iv) Specific performance
  - (v) Value for what has been done (*quantum meruit*)
- (d) The case of *Hadley v Baxdale (1854)* illustrates that where damages (compensation for loss) are a remedy to breach of contracts, they are not recoverable where it is felt they are too remote.

**END**

NOT FOR SALE