

STRICTLY CONFIDENTIAL



2015 EXAMINATIONS

CERTIFICATE IN FINANCIAL ACCOUNTING PROGRAMME

PAPER FA 3 : BUSINESS KNOWLEDGE

THURSDAY 4 JUNE 2015

TIME ALLOWED: 3 HOURS

SUGGESTED SOLUTIONS

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

1.
 - (a) Provision of services is a type of utility that involves combining different forms of utility.
 - (b) A statutory corporation in Malawi involved in the creation of utility of:
 - (i) Form – ESCOM
 - (ii) Time – ADMARC
 - (c) Ministry of Transport is involved in the coordination of businesses involved in the creation of utility of place.
 - (d) Three types of direct services are:
 - (i) Defence – provided by the Malawi Defence Force, a public institution.
 - (ii) Health – provided by MASM Clinics, a private institution.
 - (iii) Education – provided by Ministry of Education, a public institution.
 - (e) Reasons why most large scale retailers prefer to operate on self-service basis are:
 - (i) Increased use of pre-packed goods.
 - (ii) As an effort to reduce the high labour costs.
 - (iii) Availability of materials that assist in displaying the goods and monitoring shoplifting.
2.
 - (a) Types of wholesaling are:
 - (i) Primary wholesaling
 - (ii) Secondary wholesaling
 - (iii) Cash and carry wholesaling
 - (iv) Agents
 - (v) Factors

- (b) It is not possible for a country to produce all that it requires for the following reasons:
- (i) Nature has distributed resources differently and countries meet their inadequacies through exchange.
 - (ii) Demand for products in a country may surpass production and thus require supplements from other countries.
 - (iii) Climate plays a part on what a country can produce, and this affects availability of different products.
 - (iv) A country specializes in particular activities and it becomes cheaper to provide other products by importing from other countries.
- (c) The role of transport in commerce:
- (i) It assists in the movement of people from one place to another.
 - (ii) It assists in the distribution of goods, both raw materials and finished products, to the centres where they are consumed.
3. (a) An exporter gets paid through 'open account transactions' when an importer pays money into the exporter's local branch of the exporter's bank, from where it can be transferred to the exporter's account of the same bank.
- (b) Warehousing is the provision of storage facilities for goods.
- (c) Type of warehouse is:
- (i) private warehouse
 - (ii) public warehouse
- (d) Benefits that a partner enjoys in a partnership business:
- (i) Specialization: It is possible for partners to divide work among themselves according to capabilities possessed by each of them.
 - (ii) Personal contact – most partnerships still operate on a scale which permit personal contact with customers and employees.
 - (iii) Consultation – partners will often consult to solve business problems and thus make good decisions.
 - (iv) Shared strain – the partners share the worries of the business.

- (e) Sole proprietorship's lack of legal separation from the owner has the benefit of having quick decision making without consultations.

It has the disadvantage of having the owner liable for the debts incurred by the business.

- (f) 'Indispensability' of the owner in sole proprietorship is a disadvantage because the business depends on the hard working spirit of the owner and is adversely affected when the owner is sick or absent.

SECTION B

Answer THREE questions ONLY from this Section

4. (a) Three financial institutions whose operations are overseen by the Reserve Bank of Malawi are:
- (i) Pension funds
 - (ii) Insurance companies
 - (iii) Commercial banks
- (b) Banks do provide the following services:
- (i) Investment advice – For a person who wants to invest his/her savings, he/she can approach his/her bank manager who will provide appropriate advice.
 - (ii) Bankers reference – A bank can assist its customer know the financial position of a prospective buyer of the customer's goods or services upon request by the bank's customer.
- (c) A bearer cheque is a cheque written 'pay bearer' and anyone in possession of such cheque can demand cash from the bank.
- (d) Major sources of Malawi law, which is received law, are:
- (i) Custom
 - (ii) Common law
 - (iii) Equity
 - (iv) Academic writings
 - (v) International law
 - (vi) Legislation

5.
 - (a) Law is a body of rules for the guidance of human conduct which is imposed upon and enforced among the members of a given state.
 - (b) A party in a criminal trial
 - the prosecutor
 - the accused (defendant)
 - (c) The difference between sale of goods and barter is that the consideration for the sale of goods is in monetary terms and consideration for barter is in goods.
 - (d) Three parties in a hire purchase agreement are:
 - (i) the hirer
 - (ii) the bailor
 - (iii) the financier
 - (e) Three basic features of a hire purchase agreement are:
 - (i) The hirer has an option to purchase the good.
 - (ii) Payment of the price is by instalments.
 - (iii) The bailor can exercise the power to repossess the item if there has been default by the hirer.
6.
 - (a) Three elements of a contract of sale of goods between Mrs Phebe and Jean are:
 - (i) Offer – Mrs Phebe made an offer by packing the product into her bag.
 - (ii) Acceptance – Jean showed acceptance by requesting from Mrs Phebe the purchase price.
 - (iii) Consideration – Mrs Phebe released the K500 for Jean to have the K200 consideration for the product.
 - (b) Cases when an invitation to treat is made:
 - (i) Road-side trader's place:

- When the goods are displayed by the road-side.
- When a price is indicated by the goods.
- When the owner shows signs or invites passersby to see the goods, or that they are for sale.

(ii) Mobile shop:

- When the owner shouts availability of the goods.
- Display of the goods or carrying item.

- (c) A hire purchase agreement is terminated by performance when the hirer exercises the option to purchase the goods.
- (d) An endorsement of a bill of exchange is the act of approving instruction on the bill of exchange by signing at the back of the bill and delivering it to the third party.
- (e) Three requirements of a valid endorsement are:
- (i) The endorsement should always correspond with the drawing.
 - (ii) It must be written on the bill itself and signed by the endorser.
 - (iii) If the bill is payable to two or more people – all must join in the endorsement.

7. (a) Conditions that must be satisfied to create an agency by ratification are:

- (i) The ratification must take place within a reasonable time.
- (ii) The principal must have had legal capacity at the time the contract was made.
- (iii) The principal must have existed at the time the contract was made by the agent.

(b) Two sources of authority of an agent are:

- (i) Express authority
- (ii) Implied authority
- (iii) Ostensible authority

- (c) Definition of the following in contract:
- (i) Offer – is an express or implied statement of terms on which the maker is prepared to be contractually bound if it is accepted unconditionally.
 - (ii) Acceptance – is an express or implied agreement to an offer.
 - (iii) Counter-offer is a purported acceptance which introduces any new terms.
 - (iv) Executory consideration – is a promise in return for a promise.
- (d) An offer is said to have been rejected when an offeree refuses to be contractually bound on terms intimated by the offeror.

END