STRICTLY CONFIDENTIAL

THE PUBLIC ACCOUNTANTS EXAMINATION COUNCIL OF MALAWI

2014 EXAMINATIONS

CERTIFICATE IN FINANCIAL ACCOUNTING PROGRAMME

PAPER FA 4: BUSINESS ACCOUNTING

FRIDAY 30 MAY 2014

TIME ALLOWED: 3 HOURS
9.00 AM - 12.00 NOON

SUGGESTED SOLUTIONS

SECTION A

Answer TWO questions ONLY from this section

1. (a) Statement of comprehensive income for Mr Banda for the year to 30 November 2013.

	K	K
Sales		1,800,000
Return inwards		(50,000)
Turnover		1,750,000
Cost of sales		
Opening inventories	250,000	
Purchases	900,000	
Carriage inwards	80,000	
Return outwards	(30,000)	
Closing inventories	(300,000)	900,000
Gross profit		850,000
Interest receivable (8,000+10,000)		18,000
		868,000
Less: Expenses		
Wages	160,000	
Motor expenses	35,000	
Bank interest	12,000	
Advertisement	22,000	
City licence (24,000 – 5,000)	19,000	
Insurance costs	18,000	
Provision for doubtful debt	6,000	
Bad debts	24,000	
Rent	17,000	
Electricity	45,000	
Depreciation – van (25% of 600,000)	150,000	
- Fittings (25% of 480,000)	120,000	628,000
Net profit		240,000

(b) Statement of financial position as at 30 November 2013

	K	K
Non-current assets		
Motor van (800,000 – 350,000)		450,000
Furniture & fittings (600,000 – 240,000)		360,000
		810,000
Current assets		
Inventories	300,000	
Receivables (120,000 – 20,000)	100,000	
Accrued interest receivable	10,000	
Prepayments	5,000	
Bank	30,000	445,000
		1,255,000
Capital and reserves		
Capital		600,000
Profit		240,000
		840,000
Non-current liabilities		
Bank loan		300,000
Current liabilities		
Payables	70,000	
Accrued expenses	45,000	115,000
		1,255,000

2. (a) (i) Sales ledger control account

	K		K
Balance b/f	320,000	Returns	30,000
Sales	980,000	Bad debts	32,000
Interest	18,000	Contra purchases	40,000
		Cash	900,000
		Discount	50,000
		Balance c/d	266,000
	1,318,000		1,318,000
Balance b/d	266,000		

(ii) Purchases ledger control account

	K		K
Returns	15,000	Balance b/f	180,000
Contra sales	40,000	Purchases	610,000
Cash	600,000		
Discount	34,000		
Balance c/d	101,000		
	790,000		790,000
		Balance b/d	101,000

(b) Causes of differences in balance for customers:

(i) Payment which has not yet been received by the business.

(ii) Goods in transit to the customer.

(iii) Returns from the customer not yet accounted for.

(iv) Interest charged on overdue accounts not yet reported to the customer.

(v) Discount allowed to a customer but not yet accounted by the customer.

3. (a) (i) Standard costing for table and chair

Table

		K
Planks	(10 pieces @ K2,000)	20,000
Labour cost	(2hrs @ K700)	1,400
Nails	(0.5kg @ K500)	250
Vanish	(0.5 litres @ K1,000)	500
Overheads	(2hrs @ K400)	800
		22,950

Chair

(ii)

		K
Planks	(5 pieces @ K2,000)	10,000
Labour costs	(1hr @ K700)	700
Nails	(0.2kg @ K500)	100
Vanish	(0.3 litres @ K1,000)	300
Overheads	(1hr @ K300)	300
		11,400

(b) Profit from the assignment:

(i) Tables

	K
Total costs (22,950 x 50)	1,147,500
Mark up @ 20%	229,500
Sales	1,377,000

(ii) Chair

	K
Total costs 11,400 x 100	1,140,000
Mark up @ 20%	228,000
Sales revenue	1,368,000

Total sales value = (1,368,000 + 1,377,000)
= K2,745,000

(b) Apart from job costing, other methods are:

(i) Contract costing
Used to value a long term assignment like contract for a building which usually takes more than one accounting period.

(ii) Process costing
Used to value products that pass through various stages in manufacturing and are not easily identifiable in early stages of production e.g. cooking oil.

(iii) Service costing
Used to value an assignment to provide advice, assurance or reports e.g. consultancy.

4. Accounting terms

(i) Closing inventories
- These are assets held for sale or for production which have not been sold or used for a particular period and will be used in the next accounting period.
- In statement of comprehensive income, the closing inventories are subtracted from the sum of purchases and opening inventories to find the cost of goods sold.
- In statement of financial position, closing inventories are included as part of current assets.

(ii) Provision for doubtful receivables
- The account relates to an estimated amount from receivables which is expected not to be recovered.
- In statement of comprehensive income, the whole amount is treated as an expense in the first year of determination. In subsequent years an increase is treated as expense while decrease in provision is treated as income.
- In statement of financial position, provision for doubtful receivables is subtracted from receivables under current assets.

(iii) Bad debts written off recovered
- Bad debts are amounts which the business had given up on their recoverability and were removed from the financial statements but have now been received.
- In statement of comprehensive income, bad debts written off recovered are treated as income.
- In statement of financial position, bad debts written off recovered is not recognized and therefore not presented.

(iv) Depreciation
- Depreciation is the measure of the loss in value of the asset due to usage, passage of time or obsolence.
- In statement of comprehensive income, depreciation is treated as expense.
- In statement of financial position, depreciation is presented as a net off from the cost of non-current asset.

(v) Discount allowed
- Discount allowed relates to amount deducted from receivables for early settlement of their account balances.

- In statement of comprehensive income discount allowed is treated as expense.

- Discount allowed is not presented in statement of financial position.

5. (a) Four errors which do affect the trial balance:

- Under casting for any account balance.
- Failure to complete double entry i.e. recording in one account only.
- Over casting for any account balance.
- Recording transaction on same side of two separate accounts.
- Transposition error in one side entry for the transaction.

(b) Journal entries:

(i)	Dr		Suspense A/C	3,000,000	
		Cr	Capital A/C		3,000,000
(ii)	Dr		Sales	60,000	
		Cr	Receivables		60,000
(iii)	Dr		Purchases	42,000	
		Cr	Suspense A/C		42,000
(iv)	Dr		Rental expenses	70,000	
		Cr	Accruals – rentals		70,000
(v)	Dr		Suspense A/C	100,000	
		Cr	Bank		100,000
(vi)	Dr		Disposal A/C	600,000	
		Cr	Motor vehicle A/C		600,000
(vii)	Dr		Accumulated depreciation	320,000	
		Cr	Disposal A/c		320,000
(viii)	Dr		Bank	400,000	
		Cr	Disposal A/C		400,000
(ix)	Dr		Accruals	48,000	
		Cr	Interest expenses		48,000
(x)	Dr		Interest receivables	48,000	
		Cr	Interest income		48,000

(c) Suspense A/C

	K		K
Capital	3,000,000	Balance per trial balance	3,058,000
Bank	100,000	Purchases	42,000
	3,100,000		3,100,000

(d) Error of commission

This is an error whereby a transaction has been recorded in a wrong personal account example a credit sale to M Banda recorded in N Banda's account.

6. (a) Depreciation charge

Building 600,000 x 5%	K30,000
Plant and machinery	
(900,000 + 700,000 – 500,000) x 10%	K110,000
Motor vehicles	
(700,000 + 400,000) x 20%	K220,000
Office equipment	
Cost (600,000 – 200,000)	400,000
Disposal (200,000 – 80,000)	(120,000)
NBV	280,000
Depreciation @ 25%	70,000

(b) Non-current asset schedule

	Land & Buildings	Plant & Machinery	Motor vehicle	Office Equipment
Cost	K	K	K	K
Balance b/f	850,000	900,000	700,000	600,000
Additional	100,000	700,000	400,000	-
Disposal	-	(500,000)	-	(200,000)
	950,000	1,100,000	1,100,000	400,000
Depreciation				
Balance b/f	30,000	340,000	300,000	200,000
Charge	30,000	110,000	220,000	70,000
Disposal	-	(200,000)	-	(120,000)
	60,000	250,000	520,000	150,000
Net book value	890,000	850,000	580,000	250,000

7. (a) Accounting concepts

(i)
- Going concern concept
  The concept assumes that the business is going to operate into a foreseeable future i.e. a period not exceeding one year.

- The concept is very important as it assists in determining how the assets should be valued i.e. if going concern is doubtful assets are valued at expected disposal value.

(ii) Accrual concept
- The concept advocates that accounting transactions should be recognized and accounted for in the year incurred and not necessarily when cash payment or cash is received.

- The concept is very important as it ensures that profit for the year is computed basing on actual transactions incurred for a particular period.

(b) (i)

Rent & Rates A/C

	K		K
Prepaid b/f	14,000	Accruals b/f	15,000
Cash	40,000	Statement of comprehensive income	65,000
Cash	30,000	Prepaid c/f	12,000
Accruals c/f	8,000		
	92,000		92,000
Bal b/d	12,000	Balance b/d	8,000

Electricity & Water

	K		K
Prepaid b/f	20,000	Accruals b/f	10,000
Cash	25,000	Statement of comprehensive income	55,000
Cash	15,000	Prepaid c/f	6,000
Accruals c/f	11,000		
	71,000		71,000
Balance b/d	6,000	Balance b/d	11,000

(ii) Balance sheet extract

Current assets

Prepayments (6000 + 12,000)	18,000

Current liabilities

Accruals (11,000 + 8,000)	19,000

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