

EXAMINATION NO. _____

THE PUBLIC ACCOUNTANTS EXAMINATION
COUNCIL OF MALAWI

2013 EXAMINATIONS

CERTIFICATE IN FINANCIAL ACCOUNTING
PROGRAMME

PAPER FA 4 : BUSINESS ACCOUNTING

THURSDAY 28 NOVEMBER 2013

TIME ALLOWED: 3 HOURS

9.00 AM - 12.00 NOON

INSTRUCTIONS

1. You are allowed **15 minutes** reading time **before the examination begins** during which you should read the question paper and, if you wish, make annotations on the question paper. However, you will **not** be allowed, **under any circumstances**, to open the answer book and start writing or use your calculator during this reading time.
2. Number of questions on paper – 7.
3. Answer **FIVE** questions **ONLY**.
4. Each question carries 20 marks.
5. Marks will be awarded for neatness and layout. All workings forming part of your answers should be shown.
6. Begin **each** answer on a fresh page.
7. This question paper must **not** be removed from the examination hall.
8. **DO NOT OPEN THIS PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.**

This question paper contains 6 pages

1. The new Accounts Assistant for Tonse Limited is struggling to come up with the correct format for the Income Statement and Statement of Financial Position.

The sketch for the year ended 30 June 2013 produced by a Trainee Accountant is as follows:

Statement of financial position

	K
Assets	
Purchases	212,000
Opening inventories	28,800
Wages	36,000
Fuel	2,200
Bank overdraft	28,500
Delivery van (net book value)	28,000
Bank loan	<u>30,000</u>
	<u>365,500</u>
Capital and liabilities	
Returns inwards	10,000
Capital	89,000
Office furniture (net book value)	70,300
Prepayments	700
Rates	4,300
Salaries	55,000
Sales commission	42,000
Closing inventories	48,000
Office equipment	<u>20,800</u>
	<u>340,100</u>

Statement of comprehensive income

	K	K
Sales		390,000
Less:		
Drawings	33,800	
Accruals	800	
Depreciation	15,000	
Interest	4,700	
Advertisement	6,500	
Electricity	3,000	
Cleaning expenses	4,400	
Rent	14,000	
Delivery expenses	1,500	
Repairs - van	6,000	
Receivables	22,700	
Payables	18,300	
Office supplies	<u>2,500</u>	<u>133,200</u>
Profit		<u>256,800</u>

Required:

- (a) Prepare a Statement of Comprehensive Income for the period to 30 June 2013 using the information provided. **12 Marks**

- (b) Prepare the Statement of Financial Position as at June 2013. **8 Marks**
(TOTAL: 20 MARKS)

2. Information relating to payables and receivables for TK Limited as at 30 June 2013 was as follows:

	K
Balance b/f – Payables	42,000
- Receivables	89,000
Sales - cash	120,000
credit	290,000
Purchases – credit	180,000
- cash	40,000
Discount allowed	12,000
Discount received	15,000
Interest on receivables	4,000
Dishonoured cheques	15,000
Returns from credit customers	10,000
Returns from cash customers	8,000
Returns to credit suppliers	12,000
Returns on cash purchases	7,000
Cash from receivables	240,000
Payment to credit suppliers	115,000
Contra purchases	24,000
Balance c/f – Payables	56,000
- Receivables	109,000

Required:

- (a) Prepare the receivable control and payable control accounts as at 30 June 2012. **14 Marks**

- (b) Explain **two** reasons why entities prepare control accounts. **2 Marks**

- (c) Mention **four** causes of differences in the debtors balances between those in the books of accounts and those on the statement from customers. **4 Marks**

(TOTAL: 20 MARKS)

Continued/.....

3. Stakeholders rely on good financial statements in order to make various decisions relating to a company's performance and financial position.

Required:

- (a) Mention any **six** key stakeholders of a business. For each stakeholder outline the information that they require and which financial statement they depend on.

15 Marks

- (b) Outline any **four** qualities of good financial information.

4 Marks

- (c) Financial statements are not the only good source of information for decision making.

Required:

Outline any **one** limitation of financial statements when used in decision making.

1 Mark

(TOTAL : 20 MARKS)

4. Inventory movement for ZH Limited for the month of May 2013 was as follows:

1 May	Opening inventories	200 units @ K15
3 May	Purchase	300 units @ K18
10 May	Sold	250 units for K40 each
12 May	Purchased	100 units @ K20
15 May	Purchased	200 units @ K23 each
18 May	Sold	250 units for K40 each
22 May	Sold	100 units for K40 each
25 May	Purchased	300 units @ K20 each
28 May	Purchased	150 units @ K22 each
29 May	Sold	400 units for K40 each

Required:

- (a) Prepare a statement showing the valuation of the inventories for the month of May 2013, using the average cost (AVCO) method. (Give your answer to one decimal place).

10 Marks

- (b) Prepare the trading account for the month of May 2013.

5 Marks

- (c) Mention any **five** causes of obsolescence in inventories.

5 Marks

(TOTAL: 20 MARKS)

Continued/.....

5. Study the following accounting terms:

- (1) Corporation tax;
- (2) Depreciation;
- (3) Drawings;
- (4) Bank overdraft;
- (5) Dividend.

Required:

- (a) Define **each** term. **5 Marks**
 - (b) Explain how **each** item is measured. **5 Marks**
 - (c) State how **each** item is presented in the statement of comprehensive income. **5 Marks**
 - (d) State how **each** item is presented in the statement of financial position. **5 Marks**
- (TOTAL: 20 MARKS)**

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6. The trial balance for Mapanga Diary farm failed to balance by K16,000. The total figure on the credit side was higher than that on the debit side.

Upon investigation, the following was discovered:

- (1) A payment of K23,000 to J Mbawo was not recorded in his personal account.
- (2) A cash sale of K19,000 was recorded on the debit sides of both cash and sales accounts.
- (3) Totals for the purchases day book for one of the days was under cast by K19,000.
- (4) Rent payment of K24,000 was recorded in the rates account.
- (5) Electricity payment of K12,000 was correctly recorded in the cash book but was recorded as K21,000 in the electricity account.
- (6) Depreciation expense amounting to K11,000 was recorded twice in the account. The correct recording was made in the accumulated depreciation account.

Required:

- (a) Prepare journal entries to correct the above transactions. **12 Marks**
 - (b) Open a suspense account with the balances as per trial balance of K16,000. **5 Marks**
 - (c) Explain the meaning of the following errors which do not affect the trial balance.
 - (i) Error of commission; **1 Mark**
 - (ii) Error of principle; **1 Mark**
 - (iii) Error of complete reversal. **1 Mark**
- (TOTAL : 20 MARKS)**

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7. Zokoma Juices produces Malambe juice. Information for Process 1 in the month of May 2013 was as follows:

Materials 10,000 litres @ K6 per litre
 Added material K40,000
 Labour cost 4,000 hours @ K5 per hour
 Overheads absorbed @ K4 per hour
 Normal loss was set at 8% of input materials
 Output for the month was 9,400 litres.

Required:

- | | | |
|-----|--|--------------------------|
| (a) | Prepare the Process 1 account for the month of May 2013. (Do not round off the unit cost). | 10 Marks |
| (b) | Prepare a normal loss account, assuming scrap value is K12 per litre. | 2 Marks |
| (c) | Prepare the abnormal gain or loss account for the month. | 3 Marks |
| (d) | Prepare the scrap account. | 3 Marks |
| (e) | Mention any two factors which may contribute to abnormal gain. | 2 Marks |
| | | (TOTAL: 20 MARKS) |

END