EXAMINATION NO.___________________

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

2015 EXAMINATIONS

KNOWLEDGE LEVEL

PAPER 1: ACCOUNTING FRAMEWORK

TUESDAY 8 DECEMBER 2015 | **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 - 5.

3. The paper is divided into **TWO** sections **A** and **B**. Section **A** contains **one** compulsory question. All the candidates are required to answer it**.** Section B has **FOUR** questions and candidates are required to answer any **THREE**.

4. Question one carries **40** marks while all the questions in Section B carry **20** marks each.

5. All workings must be shown.

6. This question paper must **not** be removed from the examination hall.

7. **DO NOT OPEN THIS PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR**

This question paper contains 10 pages

SECTION A

COMPULSORY QUESTION

1. (a) (i) Explain the principle of "double entry" accounting and mention **two** major effects of this principle on accounting information. **2 Marks**

(ii) Mention **two** items which may increase the capital of a business entity and **two** items which may decrease it. **2 Marks**

(iii) Name any **two** attributes which differentiate financial accounting from management accounting. **2 Marks**

(iv) The total assets and total liabilities of a business as at 1 January 2014 and 31 December 2014 were as follows:

	January 1	December 31
	K	K
Assets	20,000	32,000
Liabilities	6,000	6,000

Required:

Determine the net income of the business under the following conditions:

(1) There has been no additional investment or withdrawals during the year. **1 Mark**

(2) The owner withdrew K4,800 and invested K17,000 during the year. **1½ Marks**

(b) (i) Explain, with examples, the difference between "adjusting" entries and "errors" in a trial balance and state whether or not they affect the trial balance. **5½ Marks**

(ii) The memorandum of individual personal accounts in a company's sales ledger had balances totalling K305,640. However, the balance in the accounts receivable control account at that date was K325,000. Obviously, the two balances did not agree. Subsequently, the following errors were discovered:

(1) A sales invoice of K12,900, included in the sales day book, had not been posted to the personal account in the sales ledger.

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(2) Discounts allowed to customers of K1,260 had been credited to the individual accounts in the sales ledger, but no entries had been made in the books.

(3) The returns inwards day book had been wrongly totalled. It was over-cast by K3,000.

(4) A sales invoice of K9,400 had been entirely omitted from the books.

(5) A debit balance of K7,400 on the personal account of a customer had been included in the list of balances as K4,700.

(6) The balance on a customer's account in the sales ledger of K5,500 had been omitted from the list of balances.

Required:

(1) Prepare the control account to correct the errors by which it is affected. **4 Marks**

(2) Revise the total value of the list of balances in respect of the errors to reconcile with the corrected accounts receivable control account. **4 Marks**

(c) Masteni Ltd commenced business on 1 January 2014. The following trial balance was extracted from the company's books on 31 December 2014:

	K	K
Share capital		380,000
8% debentures repayable 2020		100,000
10% unsecured loan repayable 30 June 2015		20,000
Non-current assets at cost	480,000	
Gross profit		152,000
Accounts receivable	61,500	
Accounts payable		37,870
Bank balance	7,400	
Bad debts written off	320	
Administration and selling expenses	63,200	
Interest paid 30 June 2014	5,000	
Interim dividend paid	12,000	
Inventory in trade 31 December 2014	60,450	
	689,870	689,870

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The following additional information is available:

(1) Authorized share capital is K500,000 divided into ordinary shares of K1. The balance on the share capital account represents the proceeds from issuing 300,000 shares.

(2) An allowance of 2% for doubtful debts is to be made on outstanding receivables.

(3) Depreciation on non-current assets is at the rate of 4% on cost.

(4) The directors propose to recommend a final dividend of 5t per share.

(5) Corporation tax of K18,000 is to be provided on the profits for 2014.

(6) A transfer of K10,000 is to be made to a dividend equalization reserve.

Required:

(i) Prepare a statement of comprehensive income for the year ended 31 December 2014. **6 Marks**

(ii) Calculate the company's earnings per share. **1 Mark**

(iii) Prepare a statement of financial position as at 31 December 2014. **9 Marks**

(d) Explain the meaning of "rights issue" and "bonus issue" of shares. **2 Marks**

(TOTAL : 40 MARKS)

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SECTION B

Answer THREE questions ONLY from this section

2. The following is a statement of financial position for Alekeni Anene Ltd as at 1 August 2013:

Non-current assets		
	K'000	K'000
Motor vehicles	20,000	
Shop fittings	30,000	50,000
Current assets		
Inventory	120,000	
Cash	10,000	130,000
		180,000
Financed by		
Capital		120,000
Current liabilities		
Accounts payable	40,000	
Bank overdraft	20,000	60,000
		180,000

At the end of six months, the company had made the following transactions:

(1) Purchased goods on credit amounting to K100,000.

(2) A settlement discount of 5% on settling suppliers' accounts of K80,000.

(3) Closing inventories were valued at K54,500.

(4) Cash and credit sales amounted to K272,500.

(5) Outstanding receivable balances at 31 January 2014 totalled K32,500, of which K2,500, were to be written off.

(6) Made a provision for doubtful debts amounting to 2% of the remaining debtors.

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(7) Cash payments were made in respect of the following expenses:

	K
Stationery and postage	5,000
Telephone charges	2,000
Electricity	6,000
Cleaning	1,500

(8) The owner of the business drew cash amounting to K60,000 for personal use.

(9) The outstanding overdraft balance as at 1 August 2013 was paid off. Interest and bank charges on the overdraft amounted to K400.

Required:

(a) Calculate the amount of the following:

(i) Accounts receivable **1 Mark**

(ii) Accounts payable **2 Marks**

(iii) Total cash received **1 Mark**

(iv) Total cash paid out **2 Marks**

(b) Prepare Alekeni Anene Ltd's statement of profit or loss for the six months to 31 January 2014. **7 Marks**

(c) Prepare Alekeni Anene Ltd's statement of financial position as at 31 January 2014. **4½ Marks**

(d) Explain the difference between **cash** accounting and **accruals** accounting. **2½ Marks**

(TOTAL: 20 MARKS)

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3. (a) Define the term “lease” and differentiate it with “ hire purchase”. **2 Marks**

(b) Mention **four** factors which determine whether a lease is an operating or a finance lease. **8 Marks**

(c) Matope Limited acquired a lorry on a finance lease arrangement with the Leasing & Finance Bank on 1 January 2001.

The following information on the transaction is available:

(1) The market price of the lorry was K12 million.

(2) Matope has agreed to pay rentals amounting to K3,785,650 at the beginning of the year for 4 years.

(3) Interest cost is 10%.

(4) The lorry would be depreciated using the straight line method over the 4 years with a nil residual value.

Required:

(i) Calculate the annual finance charge over the four year period using the actuarial method. **6 Marks**

(ii) Prepare an extract of the recordings of this transaction in the statements of financial position of Matope Ltd at the end of each of the four years. **4 Marks**

(TOTAL : 20 MARKS)

Continued/……

4. John, Peter and James have been in partnership for over 7 years sharing profits in the ratio 2:2:1 respectively. On 31 October 2015, the partners agreed to dissolve their partnership.

The financial position of the partnership as at 31 October 2015 was as follows:

Non-current assets	Km
Land and buildings	200
Motor vehicles	180
Office equipment	90
	470
Current assets	
Inventories	65
Receivables	50
Cash and bank	10
	125
Total assets	595
Capital	
John	120
Peter	90
James	110
Current accounts – John	30
– Peter	20
– James	40
	410
Liabilities	
Payables	150
Accruals	35
	185
Total capital and liabilities	595

Information relating to the dissolution was as follows:

(1) Land and buildings were sold for K380 million.

(2) Motor vehicles were taken by Peter at a value of K210 million.

(3) Some pieces of office equipment were sold at K60 million and other pieces valued at K35 million were taken over by James.

(4) All receivables were collected and all liabilities were settled.

(5) The cost of dissolution was K5 million.

(6) The inventories were taken over by John.

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Required:

(a) Prepare the following accounts to close the books of the partnership:

(i) Realisation account

(ii) Capital account

(iii) Bank account

19 Marks

(b) Mention any **two** causes of partnership dissolution. **1 Mark**

(TOTAL : 20 MARKS)

5. (a) Explain the meaning of the following terms as defined by the International Accounting Standard 27 (IAS 27).

(i) Group

(ii) Parent

(iii) Subsidiary

(iv) Control

(v) Minority interests

5 Marks

(b) Explain the effect on the consolidated balance sheet when the rule of cancellation is used under the following circumstances:

(i) The parent company buys 100% of the shares of the subsidiary company at the balance sheet value. **2 Marks**

(ii) The parent company buys 100% of the shares of the subsidiary for more than the balance sheet value. **2 Marks**

(iii) The parent company buys 100% of the shares of the subsidiary for less than the balance sheet value. **2 Marks**

(iv) The parent company buys less than 100% of the subsidiary shares at more than the book value. **2 Marks**

(v) The parent company buys less than 100% of the subsidiary shares at less than book value. **2 Marks**

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(c) Phiri Ltd acquired 60% of the shares in Chirwa Ltd and the following balance sheets were immediately drafted.

Phiri Ltd Balance Sheet

	K
Investment in Chirwa Ltd 12,000 shares	25,000
Non-current assets	80,000
Inventory	18,000
Accounts receivable	24,000
Bank	3,000
	150,000
Share capital – ordinary shares of 25t each	150,000

Chirwa Ltd Balance Sheet

	K
Non-current assets	14,000
Inventory	3,000
Accounts receivable	1,000
Bank	2,000
	20,000
Share capital – ordinary K1 each	20,000

Required:

Prepare a consolidated balance sheet for Phiri & Chirwa. **5 Marks**

(TOTAL : 20 MARKS)

E N D