

Examination No. \_\_\_\_\_

**THE PUBLIC ACCOUNTANTS EXAMINATION**  
**COUNCIL OF MALAWI**

**2011 EXAMINATIONS**

**FOUNDATION STAGE**

**PAPER 1: ACCOUNTING FRAMEWORK**

**MONDAY 5 DECEMBER 2011**

**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 content, presentation and layout.
6. All workings must be shown.
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 paper contains 9 pages

1. (a) Explain the meaning and importance of the accruals concept. **3 Marks**
- (b) Ezeret Publishers Ltd run a bookshop selling religious books. They buy books from various other publishers for cash and resell them. Most of the customers pay in cash except one: Rufus Publisher.

The following data relates to the trading operations of Ezeret Publishers during the month of September 2010.

	K
1 September : Books inventory	60,000 cost
Cash in hand	20,000
Unpaid account: Rufus	7,500
During September :	
Purchase of books	140,000
Cash sales	210,000
Sales on credit to Rufus	40,000
Cash payment by Rufus	35,000
At 30 September Books inventory	32,000 cost

**Required:**

Calculate the following:

- (i) the cost of books sold; **2 Marks**
- (ii) the gross profit for Ezeret Publishers for the month of September. **1½ Marks**
- (iii) the value of their current assets at 30 September. **6½ Marks**
- (c) Explain the meaning and importance of the prudence concept. **4 Marks**
- (d) Explain how the prudence concept might be applied in the following cases:
- (i) the valuation of debtors; **1½ Marks**
- (ii) the valuation of land and buildings. **1½ Marks**

**(TOTAL : 20 MARKS)**

**Continued/.....**

2. (a) (i) Define the term “goodwill”. **2 Marks**  
 (ii) State **three** methods of calculating goodwill. **3 Marks**

- (b) B & C are in partnership sharing profits and losses equally. They decide to admit S by agreement. Goodwill valued at K40,000 is to be introduced into the business books. S is required to provide capital equal to that of C after he has been credited with his share of goodwill. The profit sharing ratio is to be 8:3:5 for B, C and S respectively.

The partnership balance sheet before the admission of S showed the following:

	K
Fixed and current assets	160,000
Cash	<u>1,000</u>
	161,000
Current liabilities	<u>(41,000)</u>
	<u>120,000</u>
Capital: B	70,000
Capital: C	<u>50,000</u>
	<u>120,000</u>

**Required:**

Prepare the following:

- (i) Journal entries for the admission of S. **3½ Marks**  
 (ii) The opening balance sheet of the new partnership. **6 Marks**  
 (iii) Journal entries for writing off the goodwill which the new partners decided to do soon after the start of the new partnership. **2½ Marks**
- (c) Under what conditions is goodwill introduced into the accounts of the following forms of a business:
- (i) Sole trader; **1½ Marks**  
 (ii) Partnership? **1½ Marks**

**(TOTAL: 20 MARKS)**

**Continued/.....**

3. (a) What is a “suspense account”? **2½ Marks**
- (b) Name and explain **three** types of accounting errors and how they may lead to the creation of a suspense account. **4½ Marks**
- (c) The Accountant of Mini Fabrics Ltd found that in preparing the accounts for the year ended 31 December 2010, the Book-keeper had opened a suspense account with a credit balance of K805,300. On investigation, the Accountant found that this balance was made up of the following items:
- (1) Proceeds from an issue of shares (at nominal value) during the year amounting to K500,000 was recorded in the cashbook only.
  - (2) Proceeds from the sale of land, amounting to K300,000 was recorded in the cashbook only. The cost of the land was K200,000.
  - (3) An excess of the total of the debit side over the credit side of the trial balance due to:
    - Salary of K6,900 incorrectly entered as K9,600.
    - Cash received from a debtor, B Banda, amounting to K1,300 was incorrectly debited to his account.

**Required:**

Make the necessary corrections in the company’s ledgers to clear the suspense account.

**13 Marks**  
**(TOTAL: 20 MARKS)**

**Continued/.....**

4. (a) The following trial balance was extracted from the accounts of Tiyende Distributors Ltd at 31 December 2010.

	K'000	K'000
Share capital		2,000
Income statement 31 Dec 2009		275
Freehold premises at cost	2,710	
Provision for depreciation on freehold premises 31 Dec 2009		540
Machinery at cost	840	
Provision for depreciation on machinery 31 Dec 2009		210
Purchases	5,637	
Sales		9,253
General Expenses	146	
Salaries and wages	1,794	
Business rates	61	
Electricity	48	
Bad debts	14	
Provision for doubtful debts 31 Dec 2009		12
Accounts receivable	742	
Accounts payable		683
Inventory 31 Dec 2009	819	
Bank balance	<u>162</u>	<u>        </u>
	<u>12,973</u>	<u>12,973</u>

The following information is also available:

- (1) The authorized and issued share capital is divided into 400,000 ordinary shares of 50t each.
- (2) Inventory in hand at 31 December 2010 was K943,000.
- (3) Wages and salaries due at 31 December 2010 amounted to K18,000.
- (4) Business rates paid in advance at 31 December 2010 amounted to K7,000.
- (5) A dividend of K200,000 is proposed for 2010.
- (6) The provision for doubtful debts is to be increased to K15,000.
- (7) A depreciation charge of K250,000 is to be made on freehold premises and on machinery at the rate of 20 percent per annum on cost.

**Required:**

Prepare the following:

- (i) The Income Statement for the year ended 31 December 2010. **8 Marks**
- (ii) The Balance Sheet as at 31 December 2010. **7 Marks**

**Continued/.....**

- (b) (i) What are reserves, in the context of accounting? **1 Mark**
- (ii) Name and briefly explain **four** types of reserves. **4 Marks**  
**(TOTAL: 20 MARKS)**

NOT FOR SALE

**Continued/.....**

5. The following is a summary of Jenifer's bank account for the year ended 31 December 2010:

JENIFER'S BANK ACCOUNT			
	K		K
Balance 1.1.10	4,100	Payments	67,360
Receipts	91,190	Rent	3,950
Balance 31.12.10	6,300	Insurance	1,470
		Sundry expenses	610
		Drawings	28,200
	<u>101,590</u>		<u>101,590</u>

All the business takings have been paid into the bank except an amount of K17,400 out of which Jenifer paid wages of K11,260; drawings of K1,200 and purchase of goods amounting K4,940.

The following information relates to opening and closing balances as follows:

	31.12.09	31.12.10
	K	K
Inventory	10,800	12,200
Accounts payable	12,700	14,100
Accounts receivable	21,200	19,800
Prepaid insurance	420	440
Rent owing	390	-
Non-current assets - cost	1,800	1,600

**Required:**

- (a) Prepare T accounts to record the following:
- (i) Accounts receivable. **4 Marks**
  - (ii) Accounts payable. **4 Marks**
  - (iii) Explain why accounts receivable and accounts payable are known as "Totals accounts" and state what they are used for. **2½ Marks**
- (b) Prepare the opening statement of affairs to determine the business's sales, purchases and capital balances. **3½ Marks**
- (c) Prepare the income statement for the period. **6 Marks**

**(TOTAL : 20 MARKS)**

**Continued/.....**

6. The following balances were extracted from the books of Kapiri Manufacturers Ltd at the end of December 2010.

Balances at 31 December 2009	K'000
Authorised and issued share capital:	
Ordinary shares of K1 each fully paid	100,000
Reserves	1,000
Accounts payable	57,400
Non-current assets (cost : K60,000)	39,000
Inventories:	
Raw materials : factory	25,000
Work-in-progress (at prime cost)	5,800
Finished goods	51,000
Accounts receivable	35,000
Cash at bank	2,000
Prepaid administration expenses	600

The following transactions took place during the year 2010

Invoiced sales less returns	243,000
Cash received from customers	234,700
Discounts allowed	5,400
Bad debts written off	1,100
Invoiced purchases of raw materials	80,000
Payment to suppliers	82,500
Discounts received	1,700
Factory wages paid	33,300
Manufacturing expenses paid	61,900
Administration expenses paid	16,200
Selling and administration expenses	16,800
Payment for purchase of fixed assets	30,000

Balances at 31 December 2010

Non-current assets (cost K90,000)	60,000
Inventories:	
Raw materials	24,000
Work-in-progress	5,000
Finished goods	52,000
Administration expenses accrued	1,100
Factory wages accrued	700
Selling and distribution expenses prepaid	1,200

**Continued/.....**



The following additional information is given:

- (1) Depreciation on non-current assets is to be apportioned among manufacturing, administration and selling in the proportion of 7:2:1 respectively.
- (2) Discounts allowed and bad debts written off are to be regarded as selling and distribution expenses.
- (3) Discounts received are to be credited to administration expenses.

**Required:**

- (a) Calculate the amount of depreciation charge on the non-current assets for the period and apportion it according to the company's policy. **3 Marks**
- (b) Prepare the Manufacturing and Income Statement for Kapiri Ltd for the year ended 31 December 2010. **17 Marks**

**(TOTAL: 20 MARKS)**

7. (a) (i) State the basic rule for valuing inventory, stating the accounting concept which supports the rule. **3 Marks**

- (ii) You are given the cost information for the following products:

Product	Cost/Unit	Net Realisable Value
A	K2,400	K2,760
B	1,290	740
C	3,680	750
D	2,950	4,760
E	6,280	9,730

**Required:**

Using the rule given in (i), above, state the value of each of the products A to E.

**2½ Marks**

- (iii) Explain the difference between periodic and perpetual stock taking.

**2½ Marks**

(b) You are given the following transactions:

- (1) Legal expenses incurred in the acquisition of a new building.
- (2) Giving the factory a fresh coat of paint.
- (3) Replacing 200 tiles on a roof damaged by a gale.
- (4) Expenditure incurred in demolishing part of a wall to make room for a recently purchased machine.
- (5) Replacing wooden office windows with double-glazed metal windows.
- (6) Installing a system of ventilation in the factory.

**Required:**

For **each** of the above transactions, indicate whether it is **capital** or **revenue** expenditure. Give a reason for your answer.

**12 Marks**

**(TOTAL: 20 MARKS)**

**E N D**