

EXAMINATION NO. _____

THE PUBLIC ACCOUNTANTS EXAMINATION
COUNCIL OF MALAWI

2013 EXAMINATIONS

FOUNDATION STAGE

PAPER 1: ACCOUNTING FRAMEWORK

MONDAY 2 DECEMBER 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 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 question paper contains 8 pages

1. (a) (i) Explain the objective of inventory control. **2 Marks**
- (ii) Describe the main components of a computerized Integrated Inventory Control System. **2 Marks**
- (iii) Mbachi owns a perfume boutique. On 10 September 2012, her shop was gutted by fire which destroyed all the inventory on sale. Information contained in ledgers kept at her home showed the following:

	K
- 1 Jan 2012 balance of inventory	36,600
- Purchases, at cost, up to 9 September	134,300
- Sales, up to 9 September	187,200

Mbachi's policy is to fix the selling price as a mark-up of $\frac{1}{3}$ on cost.

Required:

Using mark-up on sales, calculate the value of the inventory that was destroyed by the fire. **6 Marks**

- (b) (i) Taimu Kabichi buys and sells second-hand clothes at Che Mbela Market. The following information relates to his purchases and sales over a period of five months.

<u>DATE</u>	<u>PURCHASES</u>		<u>SALES</u>	
	<u>Units</u>	<u>Price</u>	<u>Units</u>	<u>Price</u>
		K		K
Jan	300	5.00	200	7.00
Feb	-	-	50	7.20
Apr	400	6.00	250	8.00
May	250	6.50	300	8.50
Jun	200	7.00	200	9.00
	<u>1,150</u>		<u>1,000</u>	

Required:

Calculate the value of the closing inventory using both the LIFO and FIFO methods of inventory valuation. **7 Marks**

- (ii) With reference to the data in (i) above, compare and contrast the First-In-First-Out (FIFO) and the Last-In-First-Out (LIFO) methods of inventory valuation. **3 Marks**

(TOTAL : 20 MARKS)

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2. The trial balance of Matandani Ranches Ltd contained the following information:

	K
Sales ledger control account	110,172
Purchases ledger control account	78,266
Suspense account (debit balance)	2,400

You have also been given the following information:

- (1) The sales ledger had debit balances totalling K111,111 and credit balances of K1,239.
- (2) The purchases ledger had credit balances of K77,777 and debit balances of K1,111.
- (3) The sales ledger included a debit balance of K700 for Phiri Butchery and the purchases ledger included a credit balance of K800 relating to the same firm. Only the net amount will eventually be paid.
- (4) Included in the credit balance of the sales ledger is a balance of K600 in the name of H Banda. This arose because a sales invoice of K600 had been posted earlier, in error, from the sales day book to the debit of the account of J Banda in the purchases day book.
- (5) An allowance of K300 against damaged goods had been omitted from the appropriate account in the sales ledger. This allowance had been included in the appropriate control account.
- (6) An invoice for K456 had been entered in the purchases day book as K654.
- (7) The purchases day book had been overcast by K1,000.
- (8) The bank balance of K1,200 had been included in the trial balance in error as an overdraft.

Required:

- (a) Record the corrections in the:
 - (i) Ledger control accounts; **6 Marks**
 - (ii) Total ledger balances accounts; **7 Marks**
 - (iii) Suspense account. **2 Marks**

Continued/.....

- (b) What is the function of a suspense account? **2 Marks**
- (c) Explain the difference between ledger balances and control accounts. **3 Marks**

(TOTAL : 20 MARKS)

3. On 1 January 2012 Peter and John entered into a partnership as quantity surveyors. The following information was available for their partnership:

	Peter K	John K
Fixed capital accounts	15,000	8,000
Current accounts	(900)	600
Interest on capital allowed	10%	10%
Profit sharing ratio	$\frac{3}{4}$	$\frac{1}{4}$

Additional information:

- (1) The partnership agreement allowed a salary of K8,000 per annum for John. However, as from 1 July 2012 the partners agreed that the profits should be shared equally and that John's salary should cease.
- (2) A further change was agreed to the partners' fixed capitals: John is to increase his capital regularly each year and then Peter should withdraw a similar amount out of the firm in anticipation of his retirement. This arrangement started on 31 December 2012. John increased his capital by K2,000 on that date, out of his share of profits not drawn; Peter withdrew K2,000.
- (3) The profit for 2012 was K36,000. During the year Peter drew K1,500 every month, while John drew his agreed salary, plus another K10,000. Assume that the profit is earned evenly throughout the year.

Required:

- (a)
 - (i) Prepare the profit appropriation account showing the share of the profit made by the partnership. **4½ Marks**
 - (ii) Prepare current and capital accounts for Peter and John covering the year ended 31 December 2012. **8½ Marks**
- (b)
 - (i) Explain the meaning of goodwill according to FRS 10. **2 Marks**
 - (ii) Mention **five** items that must be agreed upon when drawing a partnership agreement. **5 Marks**

(TOTAL : 20 MARKS)

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4.

BLANTYRE SILVER CLUB
RECEIPTS AND PAYMENTS ACCOUNT FOR THE
YEAR ENDED 31 JULY 2013

	Dr		Cr
	K		K
Cash and bank balances b/d	210,000	Secretarial expenses	163,000
Sales competition tickets	437,000	Rent	1,402,000
Members' subscriptions	1,987,000	Visiting speakers	1,275,000
Donations	177,000	Donations to charity	35,000
Refund of rent	500,000	Prizes for competition	270,000
Balance c/d	13,000	Stationery and printing	179,000
	<u>3,324,000</u>		<u>3,324,000</u>

The following valuations are available

	31/07/12	31/07/13
	K	K
Equipment (original cost 1,420,000)	975,000	780,000
Subscriptions in arrears	65,000	85,000
Subscriptions in advance	10,000	37,000
Owing to suppliers of competition prizes	58,000	68,000
Inventory of competition prizes	38,000	46,000

Required:

- (a) Calculate the value of the accumulated fund for the Blantyre Silver Club as at 1 August 2012. **3 Marks**
- (b) Calculate the following accounts for the year ended 31 July 2013:
 - (i) Subscription account; **3 Marks**
 - (ii) Competition prizes. **3 Marks**
- (c) Prepare the Income and Expenditure account for the Blantyre Silver Club for the year ended 31 July 2013. **6 Marks**
- (d) Why are receipts and payments accounts associated with clubs and associations? **2 Marks**
- (e) Mention **three** sources of income for not-for-profit making organizations. **3 Marks**

(TOTAL : 20 MARKS)

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5. The following trial balance was prepared from the books of Zorah Ltd, a manufacturer of Chinaware, at 31 May 2012

	Dr K'000	Cr K'000
Directors' salaries	35,000	
Land	80,000	
Buildings (cost)	250,000	
Depreciation at 1 June 2011		55,000
Interim dividend	12,500	
Furniture and equipment (cost)	35,000	
Depreciation at 1 June 2011		6,800
Share capital (K1 shares) at 1 June 2011		120,000
Retained earnings at 1 June 2011		293,160
Debtors control account	167,350	
Creditors control account		97,840
Inventory at 1 June 2011	245,800	
Purchases	875,000	
Sales		1,134,000
Returns inwards	17,000	
Wages	98,000	
Discount received		12,420
Purchases returns		8,500
Bank		34,780
Cash in hand	750	
Heating and lighting	4,800	
General expenses	18,500	
Bad debts	2,800	
Proceeds of rights issue		80,000
	<u>1,842,500</u>	<u>1,842,500</u>

Additional information

- (1) (i) On 1 September 2011 Zorah made a rights issue of K1 shares on the basis of K1 share for every two held. This issue was very successful with all the shares being taken up.
- (ii) On 31 December 2011 Zorah made a bonus issue of K1 shares, giving one share for every one share held at that date.
- (iii) Provide in the accounts for a proposed final dividend of 10% based on the nominal value of shares as at the year end.

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- (2) (i) Buildings are depreciated at 2% on cost.
- (ii) Furniture and equipment are depreciated at 20% using the reducing balance method.
- (iv) Inventory was K256,000,000 at 31 May 2012.

Required:

- (a) Prepare the Income Statement for the year ended 31 May 2012. **10 Marks**
- (b) Prepare the Balance Sheet as at 31 May 2012. **10 Marks**
- (TOTAL : 20 MARKS)**

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6. (a) What is the difference between a **provision** and a **reserve**? **4 Marks**
- (b) (i) Mention **two** examples of provisions. **2 Marks**
- (ii) Mention **three** examples of reserves. **3 Marks**
- (c) J Banda commenced his business on 1 January 2010. He prepares financial statements to 31 December every year.

The following information relating to his business is available:

- (1) For the year ended 31 December 2010 bad debts written off amounted to K14,000. It was also necessary to create a provision for doubtful debts of K26,000.
- (2) During the year 2011 debts amounting to K22,000 proved to be bad and were written off.
- (3) James Phiri, whose debt of K2,100 was written off as bad in 2010, settled his account in full on 30 November 2011.
- (4) As at 31 December 2011 total debts outstanding were K920,000. It was decided to bring the provision up to 4% of this figure.
- (5) In 2012 K38,000 debts were written off and another recovery of K32,000 was made in respect of debts written off in 2010.
- (6) As at 31 December 2012 total debts outstanding were K720,000. The provision for doubtful debts had to be increased to 5% of the figure.

Required:

Prepare for the years 2010, 2011 and 2012:

- (i) Bad debts accounts. **3 Marks**
- (ii) Bad debts recovery accounts. **2 Marks**
- (iii) Provision for doubtful debts accounts. **2 Marks**
- (iv) An extract from the income statement. **4 Marks**

(TOTAL : 20 MARKS)

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7. (a) Mention and explain the **four** categories of ratios. Provide at least **two** examples of each category. **8 Marks**
- (b) The following statements of financial position and income statements were prepared from the books of Mwera Enterprise at the end of December 2011 and 2012 respectively:

MWERA BALANCE SHEETS

31 DECEMBER

	2011	2012
	K'000	K'000
Non-current assets	500	550
Current assets		
Inventory	150	200
Accounts receivable	125	150
Cash at bank	<u>25</u>	<u>350</u>
	<u>800</u>	<u>900</u>
Financed by		
Shareholders' equity	700	720
Current liabilities		
Accounts payable	80	100
Proposed dividends	20	60
Bank overdraft	<u>-</u>	<u>180</u>
	<u>800</u>	<u>900</u>

**INCOME STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER**

	2011	2012
	K'000	K'000
Sales	2,000	3,000
Cost of sales	1,000	1,450
Overhead costs	720	
Interest expenses	80	<u>1,300</u>
Net profit	<u>200</u>	<u>250</u>

Required:

Prepare the following ratios for each of the years 2011 and 2012:

- | | | |
|-------|-----------------------------------|----------------|
| (i) | Net profit ratio. | 2 Marks |
| (ii) | Return on capital employed ratio. | 2 Marks |
| (iii) | Inventory turnover ratio. | 2 Marks |
| (iv) | The current ratio. | 2 Marks |
| (v) | The acid test ratio. | 2 Marks |
| (vi) | Average debtor collection period. | 2 Marks |

(TOTAL: 20 MARKS)

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