

EXAMINATION NO. \_\_\_\_\_



**2016 EXAMINATIONS**

**KNOWLEDGE LEVEL**

**PAPER 1: ACCOUNTING FRAMEWORK**

**THURSDAY 8 DECEMBER 2016**

**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 8 pages

**SECTION A**  
**COMPULSORY QUESTION**

1. (a) Different forms of business have different sources of capital.

**Required:**

Mention sources of capital for the following:

- (i) **Two** sources of capital for a sole trader **1 Mark**
- (ii) **Two** sources of capital for a partnership **1 Mark**
- (iii) **Four** sources of capital for a limited company **2 Marks**
- (b) How may **each** of the above forms of business increase their capital? **1 Mark**
- (c) The following is a trial balance of Mzinethi Ltd as at 31 December 2015:

|  | K'000        | K'000        |
|--|--------------|--------------|
| Ordinary share capital (600,000 shares K1 each)  |              | 600          |
| Retained profit, 1 January 2015                  |              | 260          |
| 10% debentures repayable 2015                    |              | 500          |
| Land and buildings (including land K50,000)      | 620          |              |
| Plant and machinery (cost)                       | 500          |              |
| Patents, copyrights and licences (book value)    | 63           |              |
| Provision for depreciation (Plant and machinery) |              | 150          |
| Inventory  | 246          |              |
| Sales  |              | 2,060        |
| Purchases  | 1,350        |              |
| Debenture interest, 30 June 2015                 | 25           |              |
| Rent and insurance                               | 14           |              |
| Rates  | 17           |              |
| Accounts receivable                              | 120          |              |
| Salaries and wages                               | 365          |              |
| Provision for doubtful debts                     |              | 2            |
| Accounts payable                                 |              | 103          |
| Temporary investments                            | 300          |              |
| Cash at bank                                     | 70           |              |
| Income from investment                           |              | 15           |
|  | <u>3,690</u> | <u>3,690</u> |

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Additional information:

- (1) Inventory was valued at K286,000 on 31 December 2015.
- (2) The debenture interest for the half-year ended 31 December 2015 had not yet been paid.
- (3) The plant and machinery was purchased on 1 January 2012. It was decided to depreciate it using the straight line method. Its useful life was estimated to be 10 years with no residual value.
- (4) Provision for doubtful debt was to be 5% of the balance on the accounts receivable balance at 31 December 2015.
- (5) K9,000 is to be written off from patents, copyrights and licences.
- (6) The share capital includes the proceeds of 100,000 ordinary shares which were issued at K1.40 per share during the year.
- (7) The directors have decided to use a recent revaluation of the company's land and buildings of K750,000 for purposes of the accounts.
- (8) Corporation tax is to be provided for at K76,000.
- (9) At 31 December 2015, accruals included investment income K5,000, accrued rates K2,000, and prepaid rent and insurance K5,000.
- (10) The directors plan to recommend a dividend of K0.20t per share to the annual general meeting.

**Required:**

Prepare the following:

- (i) The Profit or Loss statement for the year ended 31 December 2015. **10½ Marks**
  - (ii) The Statement of financial position as at 31 December 2015. **11½ Marks**
- (d)
- (i) Define the term “ratio”. **1Mark**
  - (ii) Name and explain any **three** classes of accounting ratios. **6 Marks**
  - (iii) For each of the class of ratios named above, identify and calculate **one** ratio using the data from the accounts of Mzinethi Ltd. **6 Marks**
- (TOTAL : 40 MARKS)**

## SECTION B

### Answer THREE questions ONLY from this section

2. (a) What are Generally Acceptable Accounting Standards (GAAP)? **2 Marks**
- (b) Name the **five** main sources of GAAP in Malawi. **5 Marks**
- (c) What is meant by the term “conceptual framework” in accounting? **2 Marks**
- (d) Mention **five** headings of accounting conceptual framework development by the International Accounting Standards Committee. **5 Marks**
- (e) Name any **four** International Accounting Standards (IAS). **6 Marks**
- (TOTAL : 20 MARKS)**

3. The following financial statements were drawn from the books of Kujambula Art Designers for the year ended 31 December 2015:

| Kujambula Art Designers                                      |              |                      |
|--|--------------|----------------------|
| Profit or loss statement for the year ended 31 December 2015 |              |                      |
|  | K'000        | K'000                |
| Gross profit   |              | 44,700               |
| Discount received  | 410          |                      |
| Profit on sale of van  | <u>620</u>   | <u>1,030</u>         |
|  |              | 45,730               |
| Expenses   |              |                      |
| Motor vehicle expenses                                       | 1,940        |                      |
| Wages  | 17,200       |                      |
| General expenses   | 830          |                      |
| Bad debts  | 520          |                      |
| Increase in provision for doubtful debts                     | 200          |                      |
| Depreciation; van  | <u>1,800</u> | <u>22,490</u>        |
| Net profit   |              | <u><u>23,240</u></u> |

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Kujambula Art Designers  
Statements of financial position as at 31 December

|                         | <u>Notes</u> | <u>2014</u>     | <u>2015</u>     |
|-------------------------|--------------|-----------------|-----------------|
| Non-current assets      |              | K'000           | K'000           |
| Van (cost)              | (1)          | 15,400          | 8,200           |
| Less depreciation       |              | <u>(5,300)</u>  | <u>(3,100)</u>  |
|                         |              | 10,100          | 5,100           |
| Current Assets          |              |                 |                 |
| Inventory               |              | 18,600          | 24,000          |
| Accounts receivable     |              | 8,800           | 7,700           |
| Provision               |              | (600)           | (800)           |
| Bank                    |              | <u>410</u>      | <u>720</u>      |
| Total assets            |              | <u>37,310</u>   | <u>36,720</u>   |
| Capital and liabilities |              |                 |                 |
| Capital                 |              | 17,210          | 21,410          |
| Net profit              |              | 21,200          | 23,240          |
| Less drawings           |              | <u>(17,000)</u> | <u>(22,630)</u> |
|                         |              | 21,410          | 22,020          |
| Long-term liability     |              |                 |                 |
| Loan                    |              | 10,000          | 7,500           |
| Current liabilities     |              |                 |                 |
| Accounts payable        |              | <u>5,900</u>    | <u>7,200</u>    |
|                         |              | <u>37,310</u>   | <u>36,720</u>   |

Note 1: The van was sold for K3,820 during 2015 and no new van was purchased during this period.

**Required:**

- (a) The preparation of cash flow statements is regulated by the International Accounting Standard No.7 (IAS7).
- (i) What is the difference between a cash flow statement and a statement of profit or loss? **1 Mark**
- (ii) Explain the difference between a cash flow statement prepared under the direct method and that prepared under the indirect method. **4 Marks**
- (b) Prepare a cash flow statement using the indirect method. **12 Marks**
- (c) State **three** reasons why a cash flow statement is important. **3 Marks**
- (TOTAL : 20 MARKS)**

Continued/.....

4. (a) (i) What is a group of companies? **1 Mark**
- (ii) What is meant by “consolidation” of group financial statements? **1 Mark**
- (iii) Name at least **five** items that require adjustments during consolidation i.e. consolidation adjustments. **5 Marks**
- (b) The following are statements of profit or loss for Mtheto Ltd and Mhlangano Ltd for the year ended 31 December 2015:

|                         |           | Mtheto<br>Ltd    |           | Mhlangano<br>Ltd |
|-------------------------|-----------|------------------|-----------|------------------|
|                         | K'000     | K'000            | K'000     | K'000            |
| Revenue                 |           | 640              |           | 330              |
| Cost of sales           |           | <u>(410)</u>     |           | <u>(200)</u>     |
| Gross profit            |           | 230              |           | 130              |
| Distribution costs      | 35        |                  | 20        |                  |
| Administration expenses | <u>70</u> | <u>(105)</u>     | <u>55</u> | <u>(75)</u>      |
| Profit before tax       |           | 125              |           | 55               |
| Taxation                |           | <u>(26)</u>      |           | <u>(10)</u>      |
| Profit after tax        |           | <u><u>99</u></u> |           | <u><u>45</u></u> |

Additional information

- (1) Mtheto Ltd acquired 80% of the shares in Mhlangano Ltd on 1 January 2015.
- (2) Mhlangano Ltd had sold goods which cost K20,000 to Mtheto Ltd for K30,000.
- (3) At the balance sheet date, 30% of the goods mentioned in (2), above had not been sold by Mtheto Ltd.
- (4) Of the K45,000 retained profits of Mhlangano Ltd brought forward, K15,000 is post - acquisition profits.

**Required:**

Prepare a consolidated statement of profit or loss for the year ended 31 December 2015 for Mtheto Ltd.

**8 Marks**

**Continued/.....**

- (c) The following are extracts of statements of financial positions for Aniva Ltd and Nsanje Ltd as at 31 December 2015:

Aniva Ltd Statement of Financial Position

|                                     | K'000      |
|-------------------------------------|------------|
| Investment in subsidiary: 60 shares | 80         |
| Inventory                           | 110        |
| Bank                                | <u>10</u>  |
|                                     | <u>200</u> |
| Share capital                       | <u>200</u> |

Nsanje Ltd Statement of Financial Position

|               | K'000      |
|---------------|------------|
| Inventory     | 70         |
| Bank          | <u>30</u>  |
|               | <u>100</u> |
| Share capital | <u>100</u> |

Aniva Ltd bought less than 100% of the shares of Nsanje Ltd at more than their book value.

**Required:**

Prepare an extract of a consolidated statement of financial position for Aniva and Nsanje Ltd to demonstrate the concepts of goodwill and minority interest.

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

5. (a) Define the following:

(i) Cash transactions. **1 Mark**

(ii) Credit transactions. **1 Mark**

- (b) (i) State **three** advantages of trading in cash to both the buyer and seller. **3 Marks**

(ii) Give **four** advantages of trading on credit to both the buyer and seller. **4 Marks**

**Continued/.....**

- (c) The accounts of Abiti Selempani, for the year ended 30 June 2015, showed a debit balance of K12,960. The bank statement showed an overdraft of K870. On investigation it was revealed that:
- (1) Cheques received from customers, amounting to K13,500, in respect of credit sales, were entered in the cash book on 30 June but did not appear on the bank statement until 1 July.
  - (2) Cheques drawn by Abiti Selempani on 28 June in favour of trade creditors amounting to K6,820 were not cleared through the bank until after 30 June.
  - (3) No entry was made in the cash account to record rent for the year of K5,000 which was paid by the bank in accordance with a standing order on 22 June.
  - (4) On 28 June a customer paid K1,600 direct to Abiti Selempani's bank account.
  - (5) A cheque from a customer for K2,000 was recorded in the cashbook and was paid into the bank on 25 June. The bank returned the cheque on 30 June marked "insufficient funds". No entry was made in respect of this return in the cashbook.
  - (6) Bank charges of K1,750 were made on the bank statement on 30 June but were not entered in the cashbook.

**Required:**

- (i) Prepare a cash account to record the transactions listed above. **5 Marks**
  - (ii) Prepare a reconciliation between the revised cash account and the balance shown in the bank statement. **3 Marks**
  - (iii) State any **three** reasons why cash is considered to be a high risk asset. **3 Marks**
- (TOTAL : 20 MARKS)**

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