

**STRICTLY CONFIDENTIAL**

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

**2011 EXAMINATIONS**

**ACCOUNTING TECHNICIAN PROGRAMME**

**PAPER TC 1: ACCOUNTING/1**

**(JUNE 2011)**

**TIME ALLOWED : 3 HOURS**

**SUGGESTED SOLUTIONS**

## 1. (a) Users of final accounts are:

- owners
- managers
- customers
- suppliers
- employers
- buyers
- tax inspectors
- investors

**Three** reasons for users being interested in the final accounts are:

- to assess the performance of managers
- to understand the current position of the business and to plan future actions
- to assess business continuity
- to assess credit worthiness of the business
- to assess career prospects and job security

(b) <u>Assets</u>	<u>Liabilities</u>	<u>Capital</u>
(i) - Cash	- Creditors/ accounts payables	
(ii) - Bank + Equipment		
(iii) + Stock/inventory	+ Creditors/ accounts payables	
(iv) + Cash		+Capital
(v) - Stock/inventory	- Creditors/ accounts payables	

- (c) A debit balance of K395,000. Miss Mchimwene is a debtor and there are more sales that she took on credit than settlements and returns she made for them. This balance will be carried forward from the credit side and brought down, after balancing off the account, on the debit side (or simply – as the total of the debit side originally exceeded the total on the credit side, the balance is said to be a debit balance).

2. (a) Control accounts are used for the following reasons:

- (i) To check the accuracy of entries in the personal ledgers – errors will lead to a difference between the balance on the control account and the total of the balances from the personal ledgers.
- (ii) To assist in the location of errors – a regular comparison of the balance on the control account with the total of the list of balances will mean that errors will be highlighted more quickly. This will mean that the volume of transactions to be checked will be lower, and this will make it easier to locate errors.
- (iii) To provide values for inclusion in the final accounts – if there is reasonable certainty that there are no material errors (usually as a result of regular checking), the balances from the central accounts can be used in the preparation of final accounts.
- (iv) To calculate missing figures – if the accounting records are incomplete, control accounts can be used to calculate missing figures, for example if we know opening and closing values of payables and amount paid to suppliers in the accounting period, we can calculate the value of purchases.

(b) (i) Payables control account			
	K		K
(2) Credit Note (i.e. x 2)	6,000	Balance given as	450,000
(3) Offset	8,000	(1) Invoice omitted	7,000
(5) Discount (175000 – 170000)	5,000	(2) Payment overstated	900
Corrected balance	<u>438,900</u>		
	<u>457,900</u>		<u>457,900</u>

(ii) Reconciliation

	K
Total as given	464,000
- Invoice omitted	7,000
- Credit note: double effect	(6,000)
- Offset	8,000
- Payment omitted	(18,000)
- Payment overstated	900
- Write off	(5,000)
- Balance incorrectly listed (2000 x 2)	<u>4,000</u>
Corrected total	<u>438,900</u>

3. (a) (i) Error of omission  
 (ii) Error of commission  
 (iii) Error of principle  
 (iv) Compensating error  
 (v) Error of original entry  
 (vi) Complete reversal of entries  
 (vii) Transposition error  
 None. No effect

		The journal	
		Dr(K)	Cr(K)
	Chimalizeni	450	
	Malizani Manufacturing Ltd		450
	Suspense	100	
	Telephone		100
	Suspense	2000	
	Sales account		2000
	Machine repairs	390	
	Machinery		390
	Suspense	1500	
	Rent received		1500
	Purchases	765	
	Pasani		765

		K	
(ii)	Computation of Corrected Profit for the Year ended 30 April 2010		
	Profit originally reported		47,240
	Add: Telephone expense overstated	100	
	Sales understated	2,000	
	Rent received omitted	<u>1,500</u>	<u>3,600</u>
			50,840
	Less: machinery repairs understated	390	
	Purchases omitted	<u>765</u>	<u>1,155</u>
	Corrected profit figure		<u><u>49,685</u></u>

4. (a) - The capital required is more than one person can provide.  
 - The experience or ability required to manage the business cannot be found in one person alone.  
 - Many people want to share management instead of doing everything on their own.  
 - Very often the partners will be members of the same family.

- (b) (i) Dzulo and Mawa  
Profit and Loss Appropriation Account for the year ended 30 September 2010.

	K	K	K
Net profit brought down			3,284,000
Less: Salaries : Dzulo	900,000		
Mawa	<u>600,000</u>	1,500,000	
Interest on capital:			
Dzulo	600,000		
Mawa	<u>480,000</u>	<u>1,080,000</u>	<u>2,580,000</u>
			704,000
Balance of profits shared:			
Dzulo	352,000		
Mawa	<u>352,000</u>		<u>704,000</u>

	Current accounts (dates omitted)			
	Dzulo	Mawa	Dzulo	Mawa
Drawings	1,286,000	1,340,000		
			Salaries	900,000
			Interest on capital	600,000
Balance c/d	<u>566,000</u>	<u>92,000</u>	Share of profit	<u>352,000</u>
	<u>1,852,000</u>	<u>1,432,000</u>		<u>1,852,000</u>
				<u>1,432,000</u>

- (iii) Partnership Act 1890 (Section 24)

5. (a) (i)	Non-current assets	K	K
	Land and buildings		450,000
	Plant and equipment	750,000	
	Less : depreciation	<u>(200,000)</u>	<u>550,000</u>
			<u>1,000,000</u>
	Retained earnings		
(ii)	Balance (31 December 2008)	-	
	Net profit	250,000	
	Dividends	<u>(220,000)</u>	
		<u>30,000</u>	
(iii)	Total owners' equity		
	Ordinary share capital (900000+40000)	1,300,000	
	Share premium	200,000	
	Retained earnings	<u>30,000</u>	
		<u>1,530,000</u>	

(iv)	Non-current liabilities	
	Mortgage bond (287500-25000)	262,500
	Long-term loan (595000-75000)	<u>520,000</u>
		<u>782,500</u>

- (b) - Cash Book (including petty cash book)  
 - Sales Day Book (or sales journal)  
 - Purchase Day Book (or Purchases Journal)  
 - Returns Inwards Day Book (or Sales Returns Day Book (Sales Returns Journal)  
 - Returns outwards Day Book (or Purchases Returns Day Book (Purchases Returns Journal)  
 - The Journal or General Journal

- (c) One reason for having day books is to avoid too much detail being entered in the ledgers.

6. (a) Thendo Manufacturers  
 Manufacturing, Trading, Profit and Loss Account for the year ended  
 31 August 2010

	K	K	K	K
Manufacturing				
Opening inventories of raw materials	97,288			
Purchases of raw materials	<u>1,108,790</u>			
	1,206,078			
Less: Closing inventories of raw materials	<u>123,800</u>			
	1,082,278			
<u>Direct expenses</u>				
Manufacturing salaries and wages	<u>394,780</u>			
Prime cost		1,477,058		
<u>Overheads</u>				
Factory electricity and power	124,600			
Machinery depreciation	<u>57,998</u>			
		182,598		
Cost of goods completed c/d		1,659,656		
Trading, Profit and Loss Account				
<u>Sales</u>		1,750,000		
Less: Cost of sales				
Inventories of finished goods 1.9.2009		416,622		
Add: Production cost of goods completed b/d		<u>1,659,656</u>		
		2,076,278		
Less: Inventories of finished goods 31.8.2010		<u>471,082</u>	1,605,196	
<u>Gross profit</u>				144,804
Less: Expenses				
Motor vehicle running expenses		217,000		
Electricity and power – office		67,350		
Office equipment depreciation			89,998	
	<u>(73,998) +</u>	<u>16,000</u>		
Net loss				<u>229,544</u>

(b)

Thendo Manufacturers  
Balance Sheet as at 31 August 2010

	Cost K	Depreciation K	Net K
Non-current assets			
Machinery	1,250,000	(57,998 + 257,998	934,004
Office equipment	<u>500,081</u>	<u>(166,021 + 73,998)*</u>	<u>244,067</u>
	1,750,081	498,017	1,178,066
Current assets			
Inventories: Finished goods		471,082	
Raw materials		123,800	
Accounts receivable		177,700	
Cash and bank		<u>101,000</u>	
		873,582	
Accounts payable		<u>89,000</u>	
Working capital			<u>784,582</u>
			<u>1,962,192</u>
Capital			
Balance as at 1.9.2009			2,192,192
Less net loss			<u>229,544</u>
			<u>1,962,648</u>

\* Or K256,019

7.

(a) Prepaid expense

Is an expense which has been paid in advance, the benefits from which will be received in the next period. It is included in the balance sheet under current assets as 'prepayments'. Examples are the portion of rental expense that has been paid but not utilized; annual subscription fees and insurance.

(b) Bank statement

A copy issued by a bank to a customer showing the customer's account maintained at the bank. The basic statement also shows direct debits and credits by the bank for charges, standing orders and other transactions. Examples will vary according to the type of statement, notably – Statement on current account

- Statement on loan account
- Statement on a deposit account, say 30 day call account

(c) Fundamental accounting concepts

These comprise a set of concepts considered so important that they have been enforced through accounting standards and/or through the companies Acts. Examples are the going concern concept, the consistency concept, the prudence concept (conservation), the accruals concept (matching), and the separate determination concept.

(d) Capital expenditure is expenditure which is incurred when a business spends money either to buy a non-current asset, or to add to the value of an existing non-

current asset. Included in such amounts should be spending on acquiring non-current assets, bringing them into business, legal costs of buying buildings, carriage inwards on machinery bought, any other cost needed to get a non-current asset ready for use.

- (e) Gross loss is when cost of sales exceeds the sales revenue. Examples are:

Sales	10	20	200
Cost of sales	<u>100</u>	<u>80</u>	<u>211</u>
Gross loss	<u>90</u>	<u>60</u>	<u>11</u>

**E N D**