THE PUBLIC ACCOUNTANTS EXAMINATION COUNCIL OF MALAWI

2012 EXAMINATIONS

ACCOUNTING TECHNICIAN PROGRAMME

PAPER TC 1: ACCOUNTING/1

(DECEMBER 2012 MAIN)

TIME ALLOWED : 3 HOURS

SUGGESTED SOLUTIONS

1. (a) (i) STATEMENT OF AFFAIRS

2012	K		K
30 September 2012			
Trade payables	450,000 **1**	Office furniture	45,000 **1**
Other payables	70,000 **1**	Inventories	150,000 **1**
Capital account – being		Trade receivables	530,000 **1**
Excess of assets over		Other receivables	70,000 **1**
liabilities at this date	355,000 **1**	Cash	80,000 **1**
	875,000		875,000

Calculation of profit	K
Capital, 30 September 2012	355,000
Drawings for the year	45,000 **1**
Capital, 1 October 2011	(300,000) **1**
Profit for year ended 30 September 2012	100,000

10 Marks

(ii) No great difficulty should be experienced in estimating values of the assets and liabilities at, or shortly after, the end of the period under review when the work of preparing the statement is undertaken shortly after that date. This is because the necessary material for the valuation will probably be still accessible, and memory on transactions made may still be fresh. The preparation of earlier statements may present more difficulty and the most searching enquiries may have to be made. Needless to say, this method of ascertaining results is most unsatisfactory and the trader should be advised to install double entry bookkeeping without delay.

Any four points, 1 Mark each = 4 Marks

(b) Receipts and payments
(i), (iii) and (v) **3 Marks**

Income and expenditure
(ii), (iv) and (vi). **3 Marks**

6 Marks

(TOTAL : 20 MARKS)

2. (a) Statement of allocation of net profit/(loss) or appropriation account)

	Total	Kumbali	Kumphepete	Kudera
	K	K	K	K
Interest on capital	170,000 ½	100,000 ½	20,000 ½	50,000 ½
Balance of losses (shared equally)	(1,457,000) ½	(485,667) ½	(485,666) ½	(485,667) ½
	(1,287,000)	(385,667)	(465,666)	(435,667)

½ Mark for presentation = 8 Marks

(b) Drawings – these are charged **1**
Other personal benefits are charged **1**
Salaries – these are credited **1**
Interest on capital – is credited **1**
Share of profits – these are credited **1**

Any four, 1 Mark each = 4 Marks

(c) These are called fixed capital accounts. **2 Marks**

(d) In preparation the financial statements of a partnership and a sole trader, the similarities and differences would be as follows:

(i) Income statement
Sales, inventory and expenses of a partnership are the same as those of a sole trader, in this case the income statement would be identical with that prepared for the sole trader. However, a partnership would have an extra section at the end of the income statement known as the profit and loss appropriation account. This is where the distribution of profit (or loss) among partners is shown. **3 Marks**

(ii) The statement of financial position for a partnership is similar to that of a sole trader, except that the capital part is split between capital account and current account for different partners whereas for the sole trader, the capital account is not split since it is for the one individual. **2 Marks**

(e) (i) Number of regular customers who are likely to continue to deal with the new owner.
(ii) Whether the business has a good reputation.
(iii) Quality and calibre of employees (experienced and reliable).
(iv) If the business is situated in a good location.
(v) If the firm has good contacts with suppliers.

Any four, 1 Mark each = 4 Marks
(TOTAL : 20 MARKS)

3. (a) (i) Credit purchases

(ii) Returns outwards

(iii) Cheques paid

(iv) Cash paid **Any three, 1 Mark each = 3 Marks**

(b) To ensure an arithmetical check on the accounting records. The agreement of total of individual creditors balances with that of balance on control account provides that check.

If control accounts and ledger are kept by separate personnel, than a check on their work and honesty is provided.

Three valid points = 3 Marks

(c)	(i)	Increase K19,800	**2 Marks**
	(ii)	Decrease K10,000	**2 Marks**
	(iii)	No effect	**2 Marks**
	(v)	Decrease K40,000	**2 Marks**
	(vi)	Decrease K12,000	**2 Marks**
			10 Marks

(d) Note:

Any well reasoned argument will qualify for a correct answer,

A computer will automatically enter two figures in different directions and will then confirm it in total fashion. As such there may seem at first sight for there to be no need for control accounts.

However, there is still the need to check on the accuracy of data input. It is important that both the skill and the honesty of the programmer are checked. Accordingly there will still be a need for the control accounts.

1 Mark for correct and relevant statement, up to four = 4 Marks

(TOTAL : 20 MARKS)

4. (a) Underlying accounting concepts are accounting concepts which have been applied ever since financial statements were first produced for external reporting purposes and they have now become second nature to accounts and are not generally enforced, other than through custom and practice. Examples: historic cost concept, money measurement concept, business entity concept, dual aspect concept and time interval concept.

Fundamental accounting concepts comprise of a set of concepts considered so important that they have been enforced through accounting standards and/or through the Companies Act: Examples – going concern concept, consistency concept, prudence concept, accruals concept, separate determination concept, substance over form concept and materiality.

Name 1 Mark each = 2 Marks

Explanation 2 Marks each = 4 Marks

Examples 1 Mark each = 2 Marks

8 Marks

(b) An accounting equation is the basis fundamental rule of accounting which states that the assets and liabilities (plus capital) of a business must always be equal.

2 Marks

Examples : Capital = Assets where capital and assets are K1 million each or Capital = Assets – liabilities where assets are K1.2 million, liabilities are K200,000 and capital K1 million. **2 Marks**

(c)	Transaction	Effect on assets	Effect on liabilities	Effect on capital
	Buy goods on credit for K50,000	Increase asset (stock of goods) by K50,000 **1**	Increase liability (creditor) by K50,000 **1**	- ½
	Owner pays creditors K15,000 from private money outside the business	No effect ½	Decrease liability by K15,000 **1**	Increase capital by K15,000 **1**
	Debtors pay money owing by cheque K37,000	Increase asset (Bank) Decrease asset **1** (Debtors) both by K37,000 **1**	No effect ½	No effect ½

(TOTAL : 20 MARKS)

5. (a) Lepat

Statement of Comprehensive Income for year ended 30 September 2012

	K	K
Revenues		150,000 ½
Less cost of sales		
Opening inventories	-	
Add: purchases	200,000 ½	
	200,000	
Less closing inventories	(80,000) ½	(120,000) ½
Gross profit		30,000
Less expenses		-
Net profit for the period ½		30,000 ½

Lepat's Statement of Financial position as at 30 September 2012

	Cost	Depreciation	Carrying amount
Non-current assets	K	K	K
Motor van	600,000 ½	- ½	600,000 ½
Current assets			
Inventories		80,000 ½	
Receivables		150,000 ½	
Bank and cash		240,000 ½	470,000 ½
Total assets			1,070,000 ½
Financed by capital and liabilities ½			
Capital			1,000,000 ½
Profit for the period			30,000 ½
			1,030,000
Payables			40,000 ½
Total equity and liabilities ½			1,070,000 ½

(b) Return inwards are subtracted from sales in the trading account. Return outwards are subtracted from purchases in the trading account. **2**
Carriage inwards is added to the cost of purchases in the trading account **1**
Carriage outwards is charged as an expense in the profit and loss account. **1**
Carriage outwards is not part of the selling price of goods. It is therefore never included in the calculation of gross profit. **2**

(c) (i) First in First Out – It is assumed that inventory is used or sold in the same order that it is purchased or manufactured by the business.

(ii) Last in First Out – It is assumed that inventories issued from stores are the units that were acquired the most recently, leaving those that were bought earlier still remaining in the inventory.

(iii) Average cost – issues of inventory from stores are all valued at a weighted average cost per unit. New average cost is calculated each time that there is a new delivery into stores.

(vi) Periodic weighted average cost – average price is calculated at the end of the period. All issues are then made at this average cost.

Any two, 2 Marks each = 4 Marks
(TOTAL : 20 MARKS)

6. (a) (i) Straight line

Cost K112,000 – trade-in K12,000 = K100,000 ½
Per month K100,000 ÷ 48 = K2,083.33 ½

2010	9 months	=	18,750 ½
2011	12 months	=	25,000 ½
2012	12 months	=	25,000 ½
2013	12 months	=	25,000 ½
2014	3 months	=	6,250 ½
			100,000

3½ Marks

(ii) Diminishing (reducing) balance:

	K
Cost	112,000 ½
Depreciation 2010 (40%)	44,800 ½
	67,200
Depreciation 2011	26,880 ½
	40,320
Depreciation 2012	16,128 ½
	24,192
Depreciation 2013	9,677 ½
	14,515
Depreciation 2014	5,806 ½
	8,709 ½

3½ Marks

(iii) Units of output (Total K100,000) ½

2010	4,000/20,000	=	20,000 ½
2011	5,000/20,000	=	25,000 ½
2012	5,000/20,000	=	25,000 ½
2013	5,000/20,000	=	25,000 ½
2014	1,000/20,000	=	5,000 ½

3 Marks

(b) (i) Machine

2011		2011	
Jan 1 Balance b/d	112,000 ½	Dec 31 Assets disposal	112,000 ½

(ii) Provision for depreciation

2011		2011	
Dec 31 Assets disposal	31,250 ½	Jan 1 Balance b/d	18,750 ½
		Dec 31 Profit & Loss	12,500 ½
	31,250 ½		31,250 ½

Working: Depreciation brought forward = 9/48 x 100,000 = 18,750 **1**
Depreciation expense up to 30 June 2011 = 6/12 x 25,000 = 12,500 ½

(iii) Assets disposals

2011		2011	
Dec 31 Machine	112,000 ½	June 30 Bank	80,000 ½
		Dec 31 Depreciation	31,250 ½
	112,000	Dec 31 Profit & Loss	750 ½
			112,000 ½

½ Mark for presentation
8 Marks

(c) It is a depreciation method, through which depreciation provision is based on the number of hours that the machine was operated during the period compared with total expected running hours during the machine's life in the business. **1**
A business which bought a machine costing K200,000 having an expected running life of 2,000 hours, and no scrap, could provide for depreciation of the machine at a rate of K100 for every hour it was operated during a particular accounting period. **1**
2

(TOTAL : 20 MARKS)

7. (a) Credit card is a card that enables the holder to make purchases and to draw cash up to a pre-arranged limit. The credit card granted in a period can be settled in full or in part by the end of a specified period. Many credit cards carry no annual fee. Various bonds, building societies and other financial institutions issue these cards to their customers e.g. visa, master card, American express and diners.

On the other hand, a debit card can be linked to a bank or building society but used to pay for goods and services by debiting the holders account. Debit cards are usually combined with other facilities such as ATMs, cheque guarantee functions and switch cards. Switch is a debit card system that is rapidly replacing cheques as a way to pay for in-store purchases. It allows holders to pay for purchases and, in some shops, withdraw cash at the checkout till. **4 Marks**

(b) Preference shares are shares that entitle a holder to an agreed rate of dividend before the ordinary shareholders receive anything. They may be non-cumulative, with any shortfall lost if the amount paid in any period is less than the maximum agreed amount or cumulative whereby any shortfall of dividend paid in a year is carried forward to be paid in a future year before the ordinary shareholders receive anything.

Ordinary shares are those that entitle the shareholders to dividends after the preference shareholders have been paid their dividends. The holders receive the remainder of the total profits available for dividend. There is no upper limit to the amounts of dividends they can receive. The holders are the owners of the business entity and have full voting rights. **4 Marks**

(c) Return inwards day book is a book of original entry for goods returned by customers. It is also called the Returns Inwards Journal or the Sales Return Book. Similarly Return Outwards Day Book is a book of original entry but for goods returned to suppliers. It is also called Returns Outwards Journal or the Purchases Returns Book.

For both books, the total at the end of the period is transferred to Returns Inwards or Returns Outwards account, as the case may be, in the general ledger. Commonly, the contents are:

Item description, note number, folio and amount. **4 Marks**

(d) A drawer is a person making out a cheque and using it for payment. This is only possible through a cheque system, when a bank has agreed to let someone open a current account and obtaining a copy of the customer's signature. This allows the bank to verify that cheques used are, in fact, signed by the customer. The customer is issued with a cheque book for use through their current account.

The person (or indeed an organisation) to whom the cheque is paid is the payee. They do not necessarily have to have a current (or any other type of) account, since they are only to receive (be paid the amount on the) cheque. **4 Marks**

(e) A float is the amount at which the petty cash starts each period. Whereas the period may vary the float is the fixed amount but is normally increased periodically through a revision to accommodate an increase in expected payments. However, an imprest system is one where the cashier gives the petty cashier enough cash to meet the petty cash needs for the following period. Then the cashier finds out the amounts spent by the petty cashier by looking at the entries in the petty cash book at the end of the period. At the same time, the petty cashier may give the petty cash vouchers to the cashier so that the entries in the petty cash book may be checked. The cashier then passes cash to the value of the amount spent on the petty cash in the period to the petty cashier. In other words, the cashier tops up (reimburses) the amount remaining in petty cash to bring it back up to the level it was at when the period started. **4 Marks**

(TOTAL : 20 MARKS)

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