THE PUBLIC ACCOUNTANTS EXAMINATION COUNCIL OF MALAWI

2013 EXAMINATIONS

ACCOUNTING TECHNICIAN PROGRAMME

PAPER TC 1: ACCOUNTING/1

WEDNESDAY 4 DECEMBER 2013

TIME ALLOWED : 3 HOURS
9.00 AM - 12.00 NOON

SUGGESTED SOLUTIONS

1. (a) Sales day book (or sales journal or simply sales book).

Purchases day book (or purchases journal or simply purchases book).

Returns inwards day book (or returns inwards journal or returns inwards book); in every case 'returns inwards' may be substituted by the term 'sales returns'.

Returns outwards day book (or returns outwards journal or returns outwards book); 'returns outwards' may be referred to as 'purchases returns'.

Cash book or petty cash book.

General journal (or journal if the term day book is used for other books of original entry).

(b) (i) Purchases Day Book

(1)	Farouk Patel Stores	900,000
(23)	C Karim	1,050,000
(31)	Haroon	1,800,000
		3,750,000

Sales Day Book

(8)	Wasubweni	720,000
(15)	Mumderanji Simfukwe	2,400,000
(24)	Matofotofo	810,000
		3,930,000

(ii) Purchases Ledger / Sales Ledger

	Purchases Ledger			Sales Ledger	
	Farouk Patel Stores			Wasubweni	
(1)	Purchases	900,000	(8)	Sales	720,000
	C Karim			Mumderanji Simfukwe	
(23)	Purchases	1,050,000	(15)	Sales	2,400,000
	Haroon			Matofotofo	
(31)	Purchases	1,800,000	(24)	Sales	810,000

(iii) General Ledger

Sales Account

(31) Total for month 3,930,000

Purchase Account

(31) Total for month 3,750,000

2. (a) Bonya Manufacturers Limited

Manufacturing Account for the year ended 30 June 2013

	K	K
Direct materials, 1 July 2012	260,000	
Purchases	2,550,000	
	2,810,000	
Less: inventory at 30 June 2013	310,000	2,500,000
Direct wages		1,000,000
Prime cost		3,500,000
Factory wages		554,000
		4,054,000
Work-in-progress 1 July 2012	168,000	
Less: work-in-progress at 30 June 2013	126,000	42,000
Manufacturing cost of goods completed		4,096,000

The additional marks indicated above are for correct presentation of the items concerned (format).

(b) Unless dealt with in isolation, a manufacturing account is normally linked with a trading account (and the income statement/the profit and loss account) by transferring either the manufacturing cost of goods produced or the marketing value of the goods produced to the trading account. The figure is equivalent to the entry for 'purchases' which may be found in the trading account of a non-manufacturing entity.

Apart from this slight amendment, the preparation of a trading account for a manufacturing entity is exactly the same as it is for a trading entity.

Note to markers: (Marks should be awarded for any reasonable explanation).

(c) Allocating items to the accounts listed:

(i) Gross profit brought down – profit and loss account

(ii) Sales – trading account

(iii) Direct labour – manufacturing account

(iv) All financial charges – profit and loss account

(v) Opening and closing inventories of finished goods – trading account

(vi) Direct expenses – manufacturing account

(vii) All administration expenses – profit and loss account

(viii) Indirect manufacturing costs – manufacturing account.

3. Indicating accounting effects of the transactions on the accounting equation, showing the amounts and naming the assets and liabilities to be affected:

Transaction number	Effects on assets	Effects on liabilities	Effect on capital	
(a)	Increase in inventories by K1,783,500	Increase in creditors by K1,783,500	No effect	
(b)	No effect	Decrease in liabilities by K628,325	Increase by K628,325	
(c)	Decrease in debtors by K370,000 Increase in bank by K370,000	No effect	No effect	
(d)	Decrease in cash by K10,000	Decrease in loans by K10,000	No effect	
(e)	Increase in land and buildings by K1,388,000 Decrease in bank by K1,388,000	No effect	No effect	
(f)	Increase in cash by K92,300	Increase in loans by K92,300	No effect	
(g)	Decrease in cash by K77,000	Decrease in payables/ creditors by K77,000	No effect	
(h)	Decrease in inventories by K60,000	Decrease in payables/ creditors by K60,000	No effect	
(i)	Decrease in cash by K172,000	No effect	Decrease in capital by K172,000	
(j)	Increase in inventories by K488,000. Decrease in cash by K488,000	No effect	No effect	

4. Calculation of gross profit under:

		(a) FIFO K	(b) LIFO K	(c) AVCO K
Sales	(Note 1)	860,000	860,000	860,000
Opening inventory		-	-	-
Purchases	(Note 2)	420,000	420,000	420,000
Less: Closing inventory	(Note 3)	80,000	50,000	60,000
Cost of goods sold		340,000	370,000	360,000
Gross profit	(Note 4)	520,000	490,000	500,000

Workings

1. Sales

25,000 x 12	=	300,000
35,000 x 16	=	560,000
		860,000

2. Purchases

35,000 x 5	175,000
10,000 x 6	60,000
10,000 x 6.5	65,000
15,000 x 8	120,000
	420,000

3. Closing inventory in terms of units = 70,000 (i.e. 35,000+10,000+10,000+15,000) less 60,000 (i.e. 25,000 + 35,000) = 10,000 units

	FIFO	LIFO	AVCO
at	K8	K5	K6
=	K80,000	K50,000	K60,000

4. Gross profit in each case is sales less cost of goods sold.

5. FIFO: Sold 35,000 then 10,000 then 10,000 then 5,000; LIFO sold 15,000 then 10,000 then 10,000 then 25,000; AVCO at average for all transactions during the reporting period = K420,000/70,000 = K6.

5. (a) A business transaction is recorded as both a debit entry and a credit entry (also referred to as 'double entry') to fully reflect the effects of the transaction on the entity. Every transaction affects the entity in two ways. This is usually referred to as the 'dual concept'. The two effects mean that the accounting equation (assets – liabilities = capital) will apply consistently to the entity. For example, if expenses are paid in cash, the entity is affected by an increase in the expenses and a reduction in cash. The increase in expenses would cause a reduction in the profit,

and therefore capital. Thus both assets and capital are reduced, and the accounting equation will continue to apply (any simple example is acceptable).

(b) (i)

Takondwa Tayanjana
Income statement for the year to 31 May 2013

		K	K
Sales			205,117
Cost of sales:			
Opening inventory		11,629	
Purchases		108,539	
		120,168	
Closing inventory		13,664	106,504
Gross profit			98,613
Wages		33,552	
Electricity	(9,526+940)	10,466	
Rent	(7,200-1,200)	6,000	
General expenses		4,788	
Depreciation		25,196	
Movement in allowance		178	80,180
Net profit			18,433

(ii) (1) Current assets

		K
Inventory		
Receivables	(19,885 – 1,620)	13,664
Prepayment		18,265
Cash at bank		1,200
		1,731
		34,860

(2) Capital

Opening balance	34,305
Profit for the year	18,433
Drawings	(29,800)
	22,938

(iii)

Takondwa Tayanjana
Statement of financial position as at 31 May 2013

	K	K
Non-current assets (net) (125,980 – 25,196 – 25,196)		75,588
Current assets	34,860	
Current liabilities (46,570 + 940)	(47,510)	(12,650)
		62,938
Capital		22,938
Loan (due for repayment in year 2018)		40,000
		62,938

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

	Total	Baba	Mama	Kaka
	K	K	K	K
Interest on capital	340,000	200,000	40,000	100,000
Balance of losses (shared equally)	(2,914,000)	(971,334)	(971,333)	(971,333)
	(2,574,000)	(771,334)	(931,333)	(871,333)

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

Others are share of losses, interest on drawings and bonuses.

(c) Fixed capital accounts are partners' capital accounts that normally remain constant from year to year.

(d) (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 to 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 the partners is shown.

(ii) The statement of financial position

For a partnership this 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 same individual.

(e) Factors which may influence amount of purchased goodwill:

(i) Number of regular customers who are likely to continue to deal with the new owner.
(ii) When the business has a good reputation.
(iii) Quality and caliber of employees (experienced and reliable). Also employee loyalty.
(iv) If the business is situated in a good location.
(v) If the firm has contacts with suppliers.
(vi) Structures which the business has.
(vii) Whether the firm can easily access resources (or simply availability of resources)

7. (a) Gross loss/profit

This is an amount that is computed where the cost of goods sold exceeds the sales revenue. Examples:

	Example 1	Example 2
	K	K
Turnover	628,457	110
Cost of goods sold	628,459	101
Gross/(loss)/profit	(2)	9

(b) Credit card

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

(c) Mark-up

Is a profit shown as a percentage or fraction of cost price. Examples:

	Cost price	+	Gross profit	=	Selling price
(i)	K4 million	+	K1 million	=	K5 million
(ii)	K1,607,201	+	K392,799	=	K2,000,000

Mark-up = $\frac{\text{Gross profit}}{\text{Cost price}}$ as a fraction, or if required as a percentage, multiply by 100:

$$\frac{\text{K1 million}}{\text{K4 million}} = \frac{1}{4}, \text{ or } \frac{1}{4} \times 100 = 25 \text{ percent}$$

$$\frac{\text{K392,799}}{\text{K1,607,201}} = 0.24439943 = 24 \text{ percent}$$

(d) Bank overdraft (or simply overdraft)

An overdraft is a facility granted by a bank that allows a customer holding a current account with the bank to spend more than the funds held in the account. Interest is charged daily on the amount of the overdraft on that date and the overdraft may be repayable by an agreed date or at banks such as anytime upon request from the bank. Such facilities may be arranged with Ecobank, FDH Investment Bank, First Merchant Bank, INDE Bank, Nedbank, Standard Bank, National Bank, Malawi Savings Bank, NBS Bank and International Commercial Bank.

(e) Accumulated fund

Accumulated fund is a form of capital account for a non-profit-oriented organization. It is the difference between assets and liabilities for such organizations. Examples are:

	Example 1: NFPO x	Example 2: NFOP
	K	K
Assets	948,009	1,388,000
Liabilities	54,367	1,087,702
Accumulated fund	893,642	300,298

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