STRICTLY CONFIDENTIAL

THE PUBLIC ACCOUNTANTS EXAMINATION COUNCIL OF MALAWI

2014 EXAMINATIONS

ACCOUNTING TECHNICIAN PROGRAMME

PAPER TC 1: ACCOUNTING/1

WEDNESDAY 4 JUNE 2014 **TIME ALLOWED : 3 HOURS**
9.00 AM - 12.00 NOON

SUGGESTED SOLUTIONS

1. (a) (i) It is known that : Cost of goods sold + Gross Profit = Sales **k**

Mark-up can be used to find the profit thus: Cost of goods sold + Percentage mark-up = Sales

So: (Opening inventories + Purchases – Closing inventories *or*)

400,000 + 5,200,000 – 600,000 = 5,000,000 i.e Cost of goods sold.

And: 5,000,000 + 20% = Sales

Or : 5,000,000 + 1,000,000 = 6,000,000

Gross profit is then Sales – Cost of goods sold = 6,000,000 – 5,000,000
= 1,000,000

(ii) Tayamba Kick Starters

Trading Account for the year ended 31st December 2013

	K	K
Sales		6,000,000
Less: Cost of goods sold		
Inventories 01.01.2013	400,000	
Add purchases	5,200,000	
	5,600,000	
Less inventories 31.12.2013	600,000	5,000,000
		1,000,000

(b) Trade Payables

	K		K
Cash and bank	1,727,000	Balance b/d	763,300
Balance c/d	628,900	Purchases (difference)	1,592,600
	2,355,900		2,355,900

Trade Receivables

	K		K
Balance b/d	1,427,800	Cash and bank	3,174,500
Sales (difference)	2,980,000	Balance c/d	1,233,300
	4,407,800		4,407,800

Gross profit: Given 25% as margin on sales, gross profit is thus 25% x K 2,980,000 = **K 745,000**

Cost of goods sold (unknown) + Gross Profit K745,000 = **K 2,980,000**

Therefore cost of goods sold is K (2,980,000 – 745,000) = **K2,235,000**

Closing stock is thus the balancing figure, or opening inventory plus purchases less cost of goods sold i.e. K (1,248,000 + 1,592,600 – 2,235,000) = **K605,600** i.e. cost of goods stolen

Scott Tabeledwa

Trading Account for the period 01st April to 20th August 2013

	MK	MK
Sales		2,980,000
Less Cost of goods sold		
Opening inventories	1,248,000	
Add purchases	1,592,600	
	2,840,600	
Less closing inventories	605,600	2,235,000
Gross profit		745,000

2. (a) Uses of the journal include:

The purchase and sale of non-current assets on credit.
The correction of errors in the ledger accounts.
Writing off bad debts.
Opening entries. These are the entries needed to open a new set of books.
Adjustments to any of the entries in the ledgers.

(b) Journal entries

			K				K
(i)	Motor vehicles	Dr	6,790,000	:	Mafumu Garage	Cr	6,790,000
(ii)	Bad debts	Dr	34,000	:	Hazel Watsopano	Cr	34,000
(iii)	Zosowa Offices	Dr	490,000	:	Office furniture	Cr	490,000
(iv)	Bank	Dr	39,000	:	Wina Mphwanga	Cr	39,000
	Bad debts	Dr	111,000	:	Wina Mphwanga	Cr	111,000
(v)	Drawings	Dr	45,000	:	Purchases	Cr	45,000
(vi)	Drawings	Dr	76,000	:	Insurance	Cr	76,000
(vii)	Machinery	Dr	980,000	:	Systems Accelerated	Cr	980,000

OR

		Dr (K)	Cr (K)
(i)	Motor vehicles	6,790,000	
	Mafumu Garage		6,790,000
(ii)	Bad debts	34,000	
	Hazel Watsopano		34,000
(iii)	Zosowa Offices	490,000	
	Office furniture		490,000
(iv)	Bank	39,000	
	Wina Mphwanga		39,000
	Bad debts	111,000	
	Wina Mphwanga		111,000
(v)	Drawings	45,000	
	Purchases		45,000
(vi)	Drawings	76,000	
	Insurance		76,000
(vii)	Machinery	980,000	
	Systems Accelerated		980,000

3. (a) **Workings of purchases invoices**

		K	K	K
(1) William Mzime	4 radios x 30,000	120,000		
	3 music centres x 160,000	480,000	600,000	
	Less trade discount 25%		150,000	450,000
(2) Agness Achemwa	2 washing machines x 200,000	400,000		
	5 vacuum cleaners x 60,000	300,000		
	2 dishwashers x 150,000	300,000	1,000,000	
	Less trade discount 20%		200,000	800,000
(3) Shadreck Mphwayi	1 music centre x 300,000	300,000		
	2 washing machines x 250,000	500,000	800,000	
	Less trade discount 25%		200,000	600,000
(4) Wilson Wabwino	6 radios x 70,000		420,000	
	Less trade discount 33 1/3 %		140,000	280,000
(5) Alfred Msuweni	4 dishwashers x 200,000		800,000	
	Less trade discount 20 %		160,000	640,000

(b) (i) Purchase day book

2013		Amount
May		K
1	William Mzime	450,000
3	Agness Achemwa	800,000
15	Shadreck Mphwayi	600,000
20	Wilson Wabwino	280,000
30	Alfred Msuweni	640,000
		2,770,000

(ii) Purchases Ledger

		May		K
		1	Purchases William Mzime	450,000
		3	Purchases Agness Achemwa	800,000
		15	Purchases Shadreck Mphwayi	600,000
		20	Purchases Wilson Wabwino	280,000
		30	Purchases Alfred Msuweni	640,000

(iii) General Ledger
Purchases Account

	K	
May		
31 Total for the month	2,770,000	

4. (a) Lovemore *and* Loveness

Income Statement (trading and profit and loss account) for the year ended 30th June 2013

	K000s	K000s	K000s
Sales			123,650
Less Cost of goods sold :			
Opening inventory		41,979	
Add purchases		85,416	
		127,395	
Less Closing inventory		56,340	71,055
Gross profit			52,595
Add Reduction in provision for doubtful debts			80
			52,675
Less Salaries and wages (18,917 + 200)		19,117	
Office expenses (2,416 + 96)		2,512	
Carriage outwards		1,288	
Discounts allowed		115	
Bad debts		503	
Loan interest		4,000	
Depreciation : Fixtures	770		
Buildings	1,000	1,770	29,305
Net profit			23,370
Add Interest on drawings : Lovemore		180	
Loveness		120	300
			23,670
Less Interest on capitals : Lovemore	3,500		
Loveness	2,950	6,450	
Salary : Lovemore		800	7,250
			16,420
Balance of profits shared : Lovemore		8,210	
Loveness		8,210	16,420

(b) Statement of Financial Position as at 30th June 2013 (all amounts are in K000s)

	Cost	Depn	NBV	
Non- current assets				
Buildings	75,000	26,000	49,000	
Fixtures	11,000	4,070	6,930	
	86,000	30,070	55,930	
Current assets				
Inventory			56,340	
Trade receivables		16,243		
Less Provision for doubtful debts		320	15,923	
Bank			677	
			72,940	
Less Current liabilities				
Trade payables	11,150			
Expenses owing	296	11,446	11,446	
			117,424	
Less Loan from First Merchant Bank			40,000	
			77,424	
Financed by				
Capitals : Lovemore		35,000		
Loveness		29,500	64,500	
Current accounts		Lovemore	Loveness	
Balance 1.7.2012		1,306	298	
Add Interest on capital		3,500	2,950	
Add salary		800		
Add Balance of profits		8,210	8,210	
		13,816	11,458	
Less Drawings		6,400	5,650	
Less Interest on drawings		180	120	
		7,236	5,688	12,924
				77,424

5. Attika Mwasera

Bank

		K			K
(1)	Capital	100,000	(24)	Fatsani	10,700
(4)	Cash	2,500	(28)	Chelsea Motors	26,000

Cash

		K			K
(2)	Tatandala (loan)	4,000	(4)	Bank	2,500
(20)	Sales	700	(19)	Purchases	2,200
(27)	Capital	5,000			

Sales

					K
			(6)	Chazilala	1,800
			(10)	Moyenda	1,900
			(10)	Penyani	3,200
			(20)	Cash	700

Purchases

		K			
(3)	Fatsani	8,400			
(3)	Sokosa	36,000			
(19)	Cash	2,200			

Return inwards

		K			
(8)	Chazilala	400			
(25)	Moyenda	300			

Rewards outwards

					K
			(12)	Fatsani	1,400
			(18)	Sokosa	1,100

Van (or scrap van)

		K			K
(14)	Chelsea Motors	26,000			

Chelsea Motors

	K		K
(28) Bank	26,000	(14) Van (or scrap van)	26,000

Office furniture

	K		K
(15) Kalipentala	6,000	(26) Kalipentala	1,600

Kalipentala

	K		K
(26) Office furniture	1,600	(15) Office furniture	6,000

Tatandala (Loan)

			K
		(2) Cash	4,000

Capital

			K
		(1) Bank	100,000
		(27) Cash	5,000

Fatsani

	K		K
(12) Returns	1,400	(3) Purchases	8,400
(24) Bank	10,700		

Sokosa

	K		K
(18) Returns	1,100	(3) Purchases	36,000

Moyenda

	K		K
(10) Sales	1,900	(25) Returns	300

Chazilala

	K		K
(6) Sales	1,800	(8) Returns	400

Penyani

	K		K
Nov 10 Sales	3,200		

6. (a) Zamveka Canners and Bottlers

Manufacturing account for the year ended 31st December 2012

	K million	K million
Inventory of raw materials, 01.01.2012		500
Add purchases		8,000
		8,500
Less inventory of raw materials, 31.12.2012		(700)
Cost of raw materials consumed		7,800
Manufacturing wages		21,000
Royalties		150
Indirect manufacturing costs:		28,950
Rent	440	
Indirect wages	9,000	
General expenses	310	
Depreciation of plant and machinery	400	10,150
		39,100

(b) (i) All amounts are in millions of Malawi Kwachas

Crates

	K		K
2010		2010	
Dec 31 Cash (or bank or payables, during the year)	800	Dec 31 Income statement (P&L)	260
		Dec 31 Inventory/Stock c/d	540
	800		800
2011		2011	
Jan 1 Inventory/Stock b/d	540	Dec 31 Income statement (P&L)	330
Dec 31 Cash (or bank or payables, during the year)	320	Dec 31 Inventory/Stock c/d	530
	860		860
2012		2012	
Jan 1 Inventory/Stock b/d	530	Dec 31 Income statement (P&L)	420
Dec 31 Cash (or bank or payables, during the year)	590	Dec 31 Inventory/Stock c/d	700
	1,120		1,120
2013			
Jan 1 Inventory/Stock b/d	700		

(ii) Income statement (P&L) for the year ended 31st December

	K
2010 Use of crates	260
2011 Use of crates	330
2012 Use of crates	420

(iii) The balance of the crates account at the end of each year is shown as non-current assets in the Statement of Financial Position (that is, non-current

7. (a) Bought Ledger *and* Purchases Ledger

Bought Ledger is a variant of a Purchases Ledger where the individual accounts of the creditors, whether they be for goods or for expenses such as stationery or motor vehicles, can be kept together in a single ledger ; Purchases Ledger is a ledger for suppliers' personal accounts . Therefore to avoid a slight misuse of the term Purchases Ledger in situations where the individual accounts for trade creditors and other suppliers (whether they be for goods/merchandise or expenses) can be kept together, many businesses will give this composite ledger the more correct title of Bought Ledger.

(b) Working Capital *and* Net Current Assets

Both terms mean exactly the same thing as they are synonymous. They mean Current Assets minus Current Liabilities. The figure represents the amount of resources the business has in a form that is readily convertible into cash. Therefore Net Current Liabilities would mean negative Working Capital.

(c) Accumulated Fund *and* Capital Accounts

Accumulated Fund is a form of capital account for a non-profit- oriented organization**;** Capital Accounts are accounts in which total of resources invested and left in a business by its owner is recorded/found**.** Thus, whereas a sole trader or a partnership would have capital accounts, a non-profit-oriented organization would instead have an accumulated fund**.** In effect, it is the same as capital account, as it is the difference between assets and liabilities.

(d) Trade Discount *and* Cash Discount

Trade Discount is a deduction in price given to a trade customer when calculating the price to be charged to that customer for some goods**.** It does not appear anywhere in the accounting books and so does not appear anywhere in the financial statements. On the other hand, a cash discount appears in income statement, with discount allowed (a deduction from the amount due given to customers who pay their accounts within the time allowed) appearing as an expense in the income statement and discount received (a deduction from the amount due given to a business by a supplier when their account is paid before the time allowed has elapsed) appearing as income in the income statement.

(e) Bank Loan *and* an Overdraft (Bank Overdraft Facility)

Bank loan is an amount of money which a client advances from a bank that has a fixed (known or predetermined) rate of interest that is charged on full amount and is repayable on a specified future date; 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 in the account. Interest is charged daily on the amount of the overdraft on that (given) date and the overdraft is repayable at any time upon request from the bank.

E N D