

EXAMINATION NO. _____

THE PUBLIC ACCOUNTANTS EXAMINATION
COUNCIL OF MALAWI

2012 EXAMINATIONS

ACCOUNTING TECHNICIAN PROGRAMME

PAPER TC 1: ACCOUNTING/1

MONDAY 3 DECEMBER 2012

TIME ALLOWED : 3 HOURS
9.00 – 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 are **not** 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 - 7.
3. **FIVE** questions **ONLY** to be answered.
4. Each question carries 20 marks.
5. Marks will be awarded for neat presentation and layout.
6. All workings must be shown.
7. Begin each answer on a fresh page.
8. **DO NOT OPEN THIS PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.**

This question paper contains 7 pages

This question paper must **not** be removed from the examination hall.

1. (a) The following was Kafinyira's statement of affairs as at 31 October 2011:

STATEMENT OF AFFAIRS			
1 October 2011	K		K
Trade payables	600,000	Office furniture	50,000
Other payables	50,000	Inventories	200,000
		Trade receivables	450,000
Capital account being excess		Other receivables	100,000
of assets over liabilities at this date	<u>300,000</u>	Cash	<u>150,000</u>
	<u>950,000</u>		<u>950,000</u>

On 30 September 2012 Kafinyira's trade payables were K450,000 and other payables K70,000. His office furniture was valued at K45,000, inventories K150,000, trade receivables K530,000, other receivables K70,000, and cash was K80,000. His drawings during the period amounted to K45,000.

Required:

- (i) Calculate Kafinyira's profit for the year ended 30 September 2012. **10 Marks**
- (ii) Explain why it is advisable to estimate values of assets and liabilities at, or shortly after, the end of the year rather than later. **4 Marks**
- (b) Identify which of the following statements refer to income and expenditure accounts and which ones refer to receipts and payments accounts:
- (i) Cash transactions only;
- (ii) Includes accruals and prepayments;
- (iii) Includes capital receipts and capital payments;
- (iv) Excludes capital receipts and capital payments;
- (v) Balance represents cash in hand, bank balance or bank overdraft;
- (vi) Balance represents surplus/deficiency of income over expenditure for a given period. **6 Marks**

(TOTAL : 20 MARKS)

Continued/.....

2. (a) Kumbali, Kumphepete and Kudera are in a partnership and share profits and losses equally. They have capital account balances of K1 million, K0.2 million and K0.5 million respectively. These are all in credit. The partners are entitled to interest at 10% per annum. The loss for the year ended 31 August 2012, before charging interest on capital, amounted to K1,287,000.

Required:

Prepare a statement of allocation of net profit/(loss) (or appropriation account) for the partnership as at 31 August 2012. **4 Marks**

- (b) Mention any **four** items that may be recorded in a partner's current account, stating whether the item listed may be charged (debited) or credited to the account. **5 Marks**
- (c) In a partnership, each partner's capital account normally remains constant from year to year. Mention the term that is used to name such accounts. **2 Marks**
- (d) Explain any similarities and differences between a sole trader and a partnership, when preparing the following financial statements:
- (i) Income statement;
 - (ii) The statement of financial position. **5 Marks**
- (e) Goodwill is an intangible asset which exists if a business was purchased and the amount paid was greater than the value of net assets.

Required:

Mention any **four** factors that may influence the amount of purchased goodwill.

4 Marks

(TOTAL : 20 MARKS)

Continued/.....

3. (a) Apart from opening and closing balances, state any **three** other typical entries that one would find in the purchases ledger control account. **3 Marks**
- (b) Explain why many accounting systems are designed with a purchases ledger control account and a purchases ledger and state why it would be necessary to have separate personnel keep these accounts. **3 Marks**
- (c) The following errors have been discovered:
- (i) An invoice for K65,400 was entered in the purchases day book as K45,600;
 - (ii) A prompt payment discount of K10,000 from a credit was completely omitted from the accounting records;
 - (iii) Purchases of K25,000 were entered on the wrong side of a supplier's account in the purchases ledger;
 - (iv) No entry was made to record an agreement to contra an amount owed to **X** of K60,000 against an amount owed by **X** of K40,000;
 - (v) A credit note for K6,000 was entered as if it were an invoice.

Required:

State the numerical effect, on the purchases ledger control account balance, of correcting **each** of these errors. Treat each item separately. **10 Marks**

- (d) Information technology and computerized systems are rapidly increasing in importance in data recording.

Required:

Do you consider that this trend will eventually remove the need for control accounts to be incorporated in the design of accounting systems? Explain your answer. **4 Marks**

(TOTAL : 20 MARKS)

Continued/.....

4. (a) Name the difference between the underlying accounting concepts and the fundamental accounting concepts, giving one example in each case. **8 Marks**
- (b) Define the term accounting equation, and give **one** example of the equation using figures. **4 Marks**
- (c) In testing the equality of the accounting equation, show the effects which the following transactions will have on the accounting equation for a business entity (that is an increase, a decrease or no effect). You should also show the amounts.
- (i) Buys goods on credit for K50,000
- (ii) Owner pays creditor K15,000 from private money outside the business.
- (iii) Debtors pay all the money owing by cheque. Total that was outstanding on the account was K37,000. **8 Marks**

Hint : Use a table identifying the transaction, effect on assets, effect on liabilities, and effect on capital. State all cases where there is no effect.

(TOTAL : 20 MARKS)

Continued/.....

5. (a) Lepat, a new business, has been set up and the trial balance after the first year of trading on 30 September 2012 has been extracted as shown hereunder:

	Dr K	Cr K
Bank and cash balances	240,000	
Capital		1,000,000
Purchases	200,000	
Payables		40,000
Motor van	600,000	
Receivables	150,000	
Sales	-	<u>150,000</u>
Total	<u>1,190,000</u>	<u>1,190,000</u>

Closing inventories were K80,000.

Required:

Prepare Lepat's Statement of Comprehensive Income and Statement of Financial Position as at 30 September 2012.

(Note on format: show the net profit, total assets and total equity and liabilities, wherever appropriate).

10 Marks

- (b) Briefly state how the following items are treated when preparing financial statements:

- (i) Returns inwards;
 - (ii) Returns outwards;
 - (iii) Carriage inwards;
 - (iv) Carriage outwards;
- Justify the treatment of carriage outwards.

6 Marks

- (c) Describe any **two** methods that Lepat may have used to value its closing inventories.

4 Marks

(TOTAL : 20 MARKS)

Continued/.....

6. On 1 April 2010 a business entity purchased a machine costing K112,000. The machine can be used for a total of 20,000 hours over an estimated life of 48 months. At the end of that time, the machine is expected to have a trade-in value of K12,000.

The financial year of the business entity ends on 31 December each year. It was expected that the machine would be used for:

4,000 hours during the financial year ended 31 December 2010
 5,000 hours during the financial year ended 31 December 2011
 5,000 hours during the financial year ending 31 December 2012
 5,000 hours during the financial year ending 31 December 2013
 1,000 hours during the financial year ending 31 December 2014

Required:

- (a) Calculate the annual depreciation charges on the machine for every financial year ending on 31 December 2010, 2011, 2012, 2013 and 2014 using the following bases:
- (i) the straight line method applied on a month to month basis;
 - (ii) the diminishing balance method at 40% per annum applied on a full year basis;
 - (iii) the units of output method.
- (Your workings should be to the nearest Kwacha). **10 Marks**
- (b) Suppose that during the financial year ended 31 December 2011 the machine was used for only 1,500 hours before being sold for K80,000 on 30 June that year and assuming that the business entity chose to apply the straight line method on a month to month basis:

Required:

Show the following accounts for the year 2011 only:

- (i) the machine account;
- (ii) the provision for depreciation – machine account;
- (iii) the assets disposal account.

8 Marks

- (c) The machine hour method is one method of calculating depreciation of non-current assets.

Required:

Describe the 'machine hour' method for depreciating non-current assets and give **one** example of its applicability in practice.

2 Marks

(TOTAL : 20 MARKS)

7. State the differences between the following pairs of accounting terms:

- (a) **credit** card and **debit** card. **4 Marks**
- (b) **preference** shares and **ordinary** shares. **4 Marks**
- (c) return **inwards** daybook and return **outwards** daybook. **4 Marks**
- (d) **drawer** (of a cheque) and **payee**. **4 Marks**
- (e) **float** and **imprest** system. **4 Marks**

(TOTAL : 20 MARKS)

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NOT FOR SALE