

EXAMINATION NO. _____



2014 EXAMINATIONS

ACCOUNTING TECHNICIAN PROGRAMME

PAPER TC6: ACCOUNTING/2

WEDNESDAY 3 DECEMBER 2014

**TIME ALLOWED : 3 HOURS
9.00 AM - 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. This paper is divided into two sections.
3. Section A – This **ONE** question is compulsory and **MUST** be attempted. The question carries 40 marks.
4. Section B – Has **FOUR** questions each carrying 20 marks. Candidates should attempt any **THREE** questions from this section.
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.

SECTION A

This question is compulsory and MUST be attempted

1. (a) You have been asked to prepare financial statements of Chimodzi Ltd for the year ended 31 October 2014. The company's trial balance as at 31 October 2014 is as follows:

	Dr K'000	Cr K'000
K1 ordinary share capital		12,000
Retained earnings		12,345
Accounts payables		3,348
Property, plant and equipment – cost	58,463	
Property, plant and equipment – accumulated depreciation		27,974
Accounts receivables	6,690	
Accruals		387
10% bank loan repayable 2019		16,000
Cash at bank	1,184	
Interest paid	560	
Sales		50,875
Purchases	35,245	
Returns inwards	678	
Returns outwards		453
Distribution costs	6,654	
Administrative expenses	4,152	
Inventories as at 1 November 2013	8,456	
Final dividend for the year ended 31 October 2013	700	
Interim dividend for the year ended 31 October 2014	600	
	<u>123,382</u>	<u>123,382</u>

Additional information

- (1) The sales figure in the trial balance does not include the credit sales of K3,564,000 for October 2014.
- (2) The inventories at the close of business on 31 October 2014 cost K9,786,000.
- (3) Goods for resale costing K127,000 purchased on two months' credit in October 2014 were returned to the supplier on 30 October 2014. No entries have been made in the accounts, in the trial balance.
- (4) The company paid K48,000 insurance costs in June 2014, which covered the period 1 July 2014 to 30 June 2015. This was included in administration expenses in the trial balance.
- (5) Interest on the bank loan for the last six months of the year has not been included in the accounts.
- (6) The corporation tax charge for the year has been calculated as K1,292,000 but K38,000 was already paid.

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- (7) The trial balance has not included the issue of an additional 1,000,000 K1 ordinary shares at a price of K5.50. All the shares were fully paid.
- (8) Chimodzi Ltd financed 80% of the acquisition of Lero Ltd on 1 August 2014 using an 8% loan of K20,000,000 with a grace period of 6 months. This transaction has not been included in the books as at 31 October 2014.

Required:

- (i) Prepare the necessary journal entries to record the above transactions. **11½ Marks**
 - (ii) Draft the income statement for Chimodzi Ltd for the year ended 31 October 2014. **8½ Marks**
 - (iii) Draft the statement of financial position for Chimodzi Ltd as at 31 October 2014. **12 Marks**
- (b) “Control is presumed to exist when the parent owns, directly, or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstance, it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the parent owns half or less of the voting power of an entity...”

Required:

State **four** exceptional circumstances under which Chimodzi Ltd would still control Lero Ltd assuming the acquisition of Lero Ltd was for half or less of the voting power.

8 Marks

(TOTAL: 40 MARKS)

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SECTION B
THREE questions ONLY to be attempted from this section

2. Below is a statement of financial position for Zawo and Lende who have been in partnership for a decade sharing profits in the ratio of 1:1.

Statement of financial position as at 31 December 2013

Non-current assets	Cost	Accumulated Depreciation	Net book value
	K	K	K
Freehold land	900,000	0	900,000
Motor vehicles	1,920,000	384,000	1,536,000
Office equipment	216,000	21,600	194,400
			<u>2,630,400</u>
Current assets			
Inventories			90,400
Accounts receivables			90,600
Cash and bank			<u>100,000</u>
			<u>281,000</u>
Total assets			<u>2,911,400</u>
Capital Accounts			
Zawo			1,600,000
Lende			800,000
Current Accounts			
Zawo			(100,000)
Lende			<u>40,000</u>
			<u>2,340,000</u>
Current liabilities			
Accounts payables			300,000
Bank overdraft			<u>71,400</u>
			<u>371,400</u>
Non-current liabilities			
Bank loan			<u>200,000</u>
Total assets			<u>2,911,400</u>

Additional information:

Due to some recent misunderstandings, the partners decided to dissolve the partnership under the following terms:

- (1) Zawo took over the freehold land at a valuation of K1,800,000.
- (2) Office equipment was sold for K200,000.
- (3) Lende took over the motor vehicles at their net book value.
- (4) Inventories were sold for K84,000.

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- (5) Suppliers granted a cash discount of K50,000 on accounts payables.
- (6) Dissolution legal and accounting costs amounted to K13,500.
- (7) All loans were paid fully and individual partners met any shortfall in the bank account as individuals.
- (8) K80,000 was realized from accounts receivables.

Required:

To record the dissolution of the partnership:

- (a) Prepare the partnership realization account. **9 Marks**
 - (b) Prepare current and capital accounts for the individual partners. **5 Marks**
 - (c) Prepare the partnership bank account. **6 Marks**
- (TOTAL : 20 MARKS)**

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3. The following are summarized financial statements for Likongwe Ltd:

Statement of financial position as at 31 March	2014 K	2013 K
Non-current assets	187,500	174,600
Inventories	108,000	73,500
Accounts receivables	62,400	55,200
Cash and bank	<u>9,600</u>	<u>16,800</u>
	<u>367,500</u>	<u>320,100</u>
Ordinary share capital	195,000	172,200
Share premium account	24,000	24,300
Retained profit	<u>56,400</u>	<u>34,200</u>
	275,400	230,700
Debenture	0	41,700
Accounts payables	52,500	10,500
Taxation	18,000	17,400
Dividends	<u>21,600</u>	<u>19,800</u>
	<u>367,500</u>	<u>320,100</u>
Statement of income for the year ended 31 March 2014		
	K	
Profit before taxation	61,500	
Taxation	<u>18,000</u>	
Profit after taxation	43,500	
Dividends: paid	6,000	
declared	<u>21,600</u>	
	27,600	
Retained profit for the year	15,900	
Balance b/f	<u>40,500</u>	
Balance c/f	<u>56,400</u>	

Additional information:

- (1) Furniture and fittings with a net book value of K4,350 as at 1 April 2013 were sold for K4,800.
- (2) The profit before taxation figure is arrived at after charging depreciation of K6,300 and interest payments of K3,600.

Required:

Prepare a statement of cash flows for the year ended 31 March 2014.

20 Marks

Continued/.....

4. Below are comparative financial data for Belu Ltd and Makwecha Ltd.

	Belu Ltd K'000	Makwecha Ltd K'000
Non-current assets (net book value)	630	1, 005
Current assets		
Inventories	1,260	960
Accounts receivables	375	720
Cash at bank	<u>675</u>	<u>450</u>
	<u>2,310</u>	<u>2,130</u>
Total assets	<u>2,940</u>	<u>3,135</u>
K1 ordinary share capital	2,250	1,500
Retained profit	<u>324</u>	<u>966</u>
	<u>2,574</u>	<u>2,466</u>
Accounts payables	<u>366</u>	<u>669</u>
Total capital	<u>2,940</u>	<u>3,135</u>
Additional information		
Turnover	3,750	3,600
Gross profit	1,125	900
Net profit	450	450
Average inventory	372	1,008

Required:

- (a) Compare and comment on the performance of Belu Ltd and Makwecha Ltd in respect of profitability, liquidity, and efficient use of assets using two calculated accounting ratios for each. **15 Marks**
- (b) Give **four** reasons why comparing the performance of different companies using accounting ratios could be misleading. **5 Marks**

(TOTAL : 20 MARKS)

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5. (a) You are asked by your supervisor to prepare a bank reconciliation and make payments to creditors.

Required:

List all the documents that are necessary to do a bank reconciliation and make payments to creditors. **5 Marks**

- (b) An opaque beer brewing company acquired a pressurized cooker on finance lease agreement for 5 years. Under the agreement, the company would be paying K8,465,580 annually in arrears after a deposit of K1,496,000. The cash price for the machinery was K20,000,000. The transaction was arranged at an interest charge of 32.45% per annum.

Required:

- (i) Calculate annual finance charges and capital repayments over the period of the finance lease arrangement. **5 Marks**
- (ii) Prepare journal entries, with narratives, to record the transactions in the ledger accounts over the period. **10 Marks**

(TOTAL : 20 MARKS)

END