STRICTLY CONFIDENTIAL

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

2014 EXAMINATIONS

ACCOUNTING TECHNICIAN PROGRAMME

PAPER TC6: ACCOUNTING/2

WEDNESDAY 3 DECEMBER 2014 **TIME ALLOWED : 3 HOURS**

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SUGGESTED SOLUTIONS

SECTION A

1. (a)

		Dr K	Cr K
Accounts receivables		3,564,000	
Sales			3,564,000
Returns payables		127,000	
Accounts outwards			127,000
Prepayments – insurance (8/12 x 48000)		32,000	
Administrative expenses – insurance			32,000
Interest expense	(10% x 16,000,000 x 6/12)	800,000	
Interest payable			800,000
Taxation (1,292,000 – 38,000)		1,254,000	
Taxation payable			1,254,000
Bank		5,500,000	
Application and allotment			5,500,000
Application and allotment		5,500,000	
Ordinary share capital (1,000,000 x 1)			1,000,000
Share premium	(1,000,000 x 4.50)		4,500,000
Investment in Lero Ltd		20,000,000	
Bank			20,000,000
Bank		20,000,000	
8% loan account			20,000,000
Interest on loan (3/12 x 8% x 20,000,000)		400,000	
Interest payable			400,000

(b) Chimodzi Ltd Income Statement for the year ended 31 October 2014

		K	K
Sales	(50,875,000 + 3,564,000)		54,439,000
Returns inwards			-678,000
			53,761,000
Opening inventories		8,456,000	
Purchases		35,245,000	
Less returns outwards	(453,000 + 127,000)	-580,000	
Less closing inventories		-9,786,000	33,335,000
Cost of sales			20,426,000
Gross profit			
Distribution expenses		6,654,000	
Administrative expenses (4152000 – 8/12 x 48000)		4,120,000	10,774,000
			9,652,000
Operating profit			1,760,000
Interest (10% x 16000000 x ½ + 560,000 + 8% x 20000000 x 3/12)			7,892,000
Profit before taxation			1,292,000
Taxation			6,600,000
			1,300,000
Dividend (700,000 + 600,000)			5,300,000
Profit for the year			12,345,000
Retained profit for b/f			17,645,000
Retained profit for c/f			

Chimodzi Ltd Statement of Financial position as at 31 December 2014

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		K
Non-current assets		
Property, plant and equipment – cost		58,463,000
Property, plant and equipment – accumulated depreciation		-27,974,000
		30,489,000
Investment in Lero Ltd		20,000,000
		50,489,000
Current assets		
Inventories		9,786,000
Accounts receivables	(6,690,000 + 3,564,000)	10,254,000
Prepayments	(8/12 x 48000)	32,000
Cash at bank	(1,146,000 + 20,000,000 + 5,500,000 – 20,000,000)	6,646,000
		26,718,000
Current liabilities		
Accounts payables	(3,348,000 – 127,000)	3,221,000
Accruals		387,000
Interest payable	(800,000 + 400,000)	1,200,000
Taxation	(1,254,000 – 38,000)	1,254,000
		6,062,000
		71,145,000
K1 ordinary share capital	(1,000,000 + 12,000 000)	13,000,000
Share premium		4,500,000
Retained profit		17,645,000
		35,145,000
		16,000,000
10% loan		20,000,000
8% loan		36,000,000
		71,145,000

(b) Control also exists when the parent owns half or less of the voting power of an entity but it has:

(i) Power over more than half of the voting rights by virtue of an agreement with other investors;

(ii) Power to govern the financial and operating policies of the entity under a statute or an agreement;

(iii) Power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or

(iv) Power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

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2. (a) Realization account

	K		K
Freehold land	900,000	Zawo current and capital accounts – land	1,800,000
Motor vehicles	1,536,000	Lende – current & capital – motor vehicle	1,536,000
Office equipment	194,400	Office equipment – bank	200,000
Inventories	90,400	Inventories – bank	84,000
Accounts receivables	90,600	Accounts receivables – bank	80,000
Dissolution costs	13,500	Accounts payable – discount	50,000
Profit			
Zawo (50% x 925,100)	462,550		
Lende (50% x 925,100)	462,550		
	3,750,000		3,750,000

(b) (i) Current and capital accounts

	Zawo K	Lende K		Zawo K	Lende K
Current account b/f	100,000		Balance b/f	1,600,000	800,000
Real - land	1,800,000		Current account b/f		40,000
Real – motor vehicle		1,536,000	Real	462,550	462,550
Bank	162,550		Bank	-	233,450
	2,062,550	1,536,000		2,062,550	1,536,000

5 Marks

(iii) Bank

	K		K
Balance b/f	100,000	Balance b/f	71,400
Real – office equipment	200,000	Dissolution	13,500
Real – inventories	84,000	Accounts payables	250,000
Real – accounts receivables	80,000	Bank loan	200,000
Bank - Lende	233,450	Bank - Zawo	162,550
	697,450		697,450

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3. Statement of Cash flows

Statement of cash flows for the year ended 31 March 2014

		K
Profit before taxation		61,500
Adjustments		
Add: depreciation		6,300
interest		3,600
Less: profit on disposal (4800 – 4350)		450
		70,950
Increase in inventory	(108000 – 73500)	(34,500)
Increase in accounts receivables	(55200 – 62400)	(7,200)
Increase in accounts payables	(52500 – 10500)	42,000
		71,250
Interest		(3,600)
Tax paid	(17400 + 18000 – 18000)	(17,400)
Dividends	(19800 + 27600 – 21600)	(25,800)
		24,450
Investing activities		
Proceeds from sale of furniture and fittings		4,800
Non-current assets acquisition (187500 – (174600 – 4350))		(17,250)
		(12,450)
Financing activities		
Issue of shares (19500 + 24000 – 172200 – 24300)		22,500
Repayment of debenture	(0 – 41,700)	(41,700)
		(19,200)
Net cash increase		(7,200)
Cash and cash equivalent 31 March 2013		16,800
Cash and cash equivalent 31 March 2014		9,600
		(7,200)

4. (a) Accounting ratios

(i) Liquidity	Belu Ltd	Makwecha Ltd
Current ratio = current assets/current liabilities	(2310/366)	(2330/669)
	6.3	3.2
Quick ratio = (current assets less inventories)/current liabilities	(2310-1260)/366	(2130-960)/669
	2.9	1.7

In both current ratio and quick ratio, Belu Ltd has better cover to repay current liabilities than Makwecha

(ii) Profitability		
Gross profit as a percentage of sales	(1125/3750)x100%	(900/3600)x100%
	30.0%	25.0%
Net profit as a percentage of sales	(450/3750)x100%	(450/3600)/x100%
	12.0%	12.5%

Belu Ltd has done better than Makwecha in terms of gross profit however, Makwecha has better net profit than Belu which means Makwecha has lower operating expenses than Belu

(iii) Efficient use of assets		
Inventory turnover = sales/average inventory	(3750/372)	(3600/1008)

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or cost of sales/average inventory	10.1 times	3.6 times
	36.2 days	102 days
	(3750-1125)/372	(3600-900)/1008
	7.0 times	2.7 times
	52 days	136 days
Total assets turnover = turnover/total assets	(3750/2940)	(3600/3135)
Current asset turnover/net asset turnover etc	1.3	1.1

In both inventory turnover and total assets turnover, Belu Ltd performed better than Makwecha Ltd

(b) Reasons why accounting ratios may be misleading in comparison of companies' performance:

1 Use of different accounting policies, for instance one may use straight line depreciation while another reduced balance
2 Differences in style of management is not reflected in accounting ratios
3 Difference in industrial sector will also affect comparison of companies
4 Non-current asset age does not come out in ratio analysis.

5. (a) **Documents for bank reconciliation**

Bank statement
Cash book
Cheque book/cheque stubs

Documents for making payments to creditors

Quotations
Quotation evaluation form
Purchase order
Supplier's delivery note
Goods received note
Supplier's invoice
Payment/cheque voucher

(b) **Leasing finance**

Year	Opening balance	Installment	Interest @ 32.45%	Capital repayment	Closing balance
Y0	20,000,000				
Y1	1,496,000	8,465,580	6,004,447.24		16,042,867.24
Y2	18,504,000.00	8,465,580	5,205,823.07	2,461,132.76	12,783,110.31
Y3	16,042,867.24	8,465,580	4,148,049.69	3,259,756.93	8,465,580.00
Y4	12,783,110.31	8,465,580	2,747,034.61	4,317,530.31	-
	8,465,580.00			5,718,545.39	

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Date	Details	Dr	Cr
Y0	Machinery Lease obligation Being machinery under lease	20,000,000.00	20,000,000.00
	Lease obligation Bank Deposit payment for lease obligation	1,496,000.00	1,496,000.00
Y1	Interest charges Lease obligation Interest charged to profit and loss	6,004,447.24	6,004,447.24
	Lease obligation Bank Payment for lease obligation	8,465,580.00	8,465,580.00
Y2	Interest charges Lease obligation Interest charged to profit and loss	5,205,823.07	5,205,823.07
	Lease obligation Bank Payment for lease obligation	8,465,580.00	8,465,580.00
Y3	Interest charges Lease obligation Interest charges to profit and loss	4,148,049.69	4,148,049.69
	Lease obligation Bank Payment for lease obligation	8,465,580.00	8,465,580.00
Y4	Interest charges Lease obligation Interest charged to profit and loss	2,747,034.61	2,747,034.61
	Lease obligation Bank Payment for lease obligation	8,465,580.00	8,465,580.00
		73,463,674.61	73,463,674.61

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