EXAMINATION NO.______________________

THE PUBLIC ACCOUNTANTS EXAMINATION COUNCIL OF MALAWI

2011 EXAMINATIONS

ACCOUNTING TECHNICIAN PROGRAMME

PAPER TC 6: ACCOUNTING/2

THURSDAY 1 DECEMBER 2011

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. 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 8 pages

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

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1. Polisa and Molisa are in partnership sharing profits and losses in the ratio 3:2 respectively. Nthawiyawo is to be admitted into the partnership and would introduce K760,000 as capital and K237,000 as goodwill. On admission of Nthawiyawo, the partners have agreed to a new sharing ratio of profits and losses of Polisa 2: Molisa 2: Mthawiyawo 1. The partners have also agreed not to show any goodwill in the books of accounts.

Below is the partnership statement of financial position before the admission of Nthawiyawo.

The statement of financial position for the partnership

Non-current assets (net book value)	K
Land and buildings	848,000
Plant and machinery	480,000
Motor vehicle	320,000
	1,648,000
Current assets	
Inventories	50,000
Accounts receivables	158,000
Cash and bank	108,000
	316,000
Total assets	1,964,000
Capital	
Polisa	1,080,000
Molisa	753,000
	1,833,000
Current accounts	
Polisa	(75,000)
Molisa	120,000
	45,000
Current liabilities	
Accounts payables	86,000
Total Assets	1,964,000

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Additional information:

(1) Land and buildings were revalued at K900,000
(2) There were impairment costs on plant and machinery of K20,000.
(3) Only K40,000 worth of inventories could be realized.
(4) The founding partners agreed to value the goodwill of the partnership at one-and-half times of the current accounts receivables figure.

Required:

(a) Prepare the new partners' accounts on admission of Nthawiyawo. **13½ Marks**

(b) Prepare a draft statement of financial position after the admission of the new partner. **6½ Marks**

(TOTAL: 20 MARKS)

2. The accountant, who is your immediate supervisor, has extracted the following trial balance for the financial year ended 31 December 2010:

	Dr	Cr
	K	K
Sales		960,550
Returns inwards	19,000	
Purchases	500,000	
Returns outwards		13,500
Carriage inwards	3,780	
Motor vehicle expenses	24,950	
Wages and salaries – administration	65,500	
Wages and salaries – sales staff	49,500	
Wages and salaries – warehouse	66,520	
General expenses – administration	10,912	
Rentals – office buildings	9,000	
Rentals – warehouse	12,000	
General expenses – distribution	9,000	
Bad debts	11,818	
Interest paid	32,500	
Interest received		20,560
Cash and bank	60,000	
Accounts payable		69,520
Accounts receivable	153,000	
Motor vehicles, at cost	240,000	
Provision for depreciation		48,000
Profit and loss account		37,350
K1 ordinary share capital		118,000
	1,267,480	1,267,480

Additional information:

(1) All motor vehicle related expenses are apportioned 60% to distribution and 40% to administration.

(2) Motor vehicle depreciation is provided on a straight-line basis at 20% per annum on cost.

(3) Warehouse rentals of K5,200 are yet to be accounted for.

(4) K6,000 for general expenses – distribution have been prepaid.

(5) Inventories as at 31 December 2010 were K120,000.

(6) Income tax for the year amounted to K6,500 and has not yet been paid.

(7) Auditing fees amounted to K15,500 and should be provided for in the accounts.

(8) 5% for doubtful debts on trade accounts receivable debtors' balance should be provided for at the year-end.

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Required:

(a) Prepare the following schedules:

- (i) Gross profit; **4½ Marks**
- (ii) Distribution expenses; **3½ Marks**
- (iii) Administration expenses. **5 Marks**

(b) Prepare the statutory Income Statement for the year ended 31 December 2010. **1¾ Marks**

(c) Prepare the statement of financial position as at 31 December 2010. **5¼ Marks**

(TOTAL : 20 MARKS)

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3. Below are statements of financial position for two years ended 31.12.09 and 31.12.10, and a summarized income statement for the year ended 31.12.10.

	2009	2010
	K	K
Plant and Machinery, at cost	600,000	650,000
Less: accumulated depreciation	(200,000)	(215,000)
	400,000	435,000
Current assets		
Inventories	250,000	300,000
Accounts receivables	200,000	235,000
Cash and bank	20,000	15,000
	470,000	550,000
Total assets	870,000	985,000
Ordinary share capital	325,000	340,000
Share premium	50,000	50,000
Profit and loss	250,000	360,000
10% debenture	15,000	10,000
	640,000	760,000
Current liabilities		
Accounts payables	135,000	125,000
Taxation	45,000	40,000
Dividends	50,000	60,000
	230,000	225,000
Total assets	870,000	985,000

The summarised income statement for the year ended 31 December 2010 is as follows:

	K
Gross profit	400,000
Operating profit	280,000
Interest payable	5,000
Profit before tax	275,000
Taxation	50,000
Profit after tax	225,000
Dividend	110,000
Profit for the year	115,000

Additional information:

(1) A piece of machinery which was bought for K75,000 with a net book value of K50,000 was sold during the year at a loss of K4,000.

(2) The company issued bonus shares from profit and loss reserves.

Required:

Prepare a statement of cash flows for the year ended 31 December 2010. **20 Marks**

(TOTAL : 20 MARKS)

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4. The following are extracts from statement of financial positions as at 31 December 2010 and 2009 of Zomwe Ltd:

	31.12.10	31.12.09
Current assets		
Inventories	125,000	100,000
Accounts receivable	85,000	50,000
Cash and bank	15,000	25,000
	225,000	175,000
Current liabilities		
Accounts payable	80,000	60,000
Dividends declared	25,000	30,000
Bank overdraft	145,000	35,000
	250,000	125,000
Working capital	(25,000)	50,000

Required:

(a) Define the accounting term ‘liquidity’. **2 Marks**

(b) Calculate, for each year, **two** liquidity ratios for the company. **4 Marks**

(3) State briefly what may have caused the differences in the liquidity ratios for the two years. **2 Marks**

(4) Suggest any **four** strategies the firm could implement to improve its liquidity. **4 Marks**

(5) It is argued that accounting ratios present a too rigid picture of firms whose financial performance is compared using them.

Give **four** reasons why this claim may be true. **8 Marks**

(TOTAL : 20 MARKS)

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5. (a) Applications for new shares were invited by the directors of Doba-doba Ltd for 600,000 of its K1 ordinary shares at K2.76 per share payable as follows:

On application K0.50 per share
On allotment including the premium K2.00 per share
On the first and final call K0.26

Applications were received for 720,000 shares and they were dealt with as follows:

Not to allot any shares to applicants for 32,000 shares and to allot to the rest of the applicants on a pro rata basis.

Required:

Record the above transactions in the following accounts:

(i)	Application and allotment	**5 Marks**
(ii)	Bank account	**3 Marks**
(iii)	First and final call account	**1 Mark**
(iv)	Ordinary share capital	**1½ Marks**
(v)	Share premium	**½ Mark**

(b) What is an initial public offer (IPO) of shares? **2 Marks**

(c) State what happens if a shareholder fails to pay for calls requested from him. **2 Marks**

(d) Define the term 'redemption of shares'. **2 Marks**

(e) State any **three** advantages of redemption of shares. **3 Marks**

(TOTAL : 20 MARKS)

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6. (a) The following are independent events that you have come across during an audit exercise:

1. Discount allowed of K76,000 had been credited to the Discount Received Account.
2. A sale of K151,000 to Mr Chimwazi had been posted correctly to the personal account but entered in the sales day book as K115,000.
3. A cheque received from Mr Banda entered correctly in the cash book as K766,000 had been posted to the company's account as K760,000.
4. The purchase of new machinery for K1,200,000 had been posted to the Inventories Account.
5. A sale of K265,000 to Mr Chadza had not been posted to his account.
6. A petty cash balance of K100,000 was omitted from the Trial Balance.
7. Bank interest charges of K720,000 were correctly entered in the Cash Book but the other side of the double entry had been omitted.
8. A provision for doubtful debts of K120,000 had been omitted.
9. Proceeds of K986,000 from the disposal of a non-current asset was posted to other income.
10. Goods worth K50,000 collected by the owner from the shop were omitted from his trial balance.
11. The purchases account was debited with K145,000, being the cost of fittings and fixtures.
12. A commission of K88,800 received was credited to Rent Received account.

Required:

Prepare Journal entries, without narratives, to correct the above errors.

12½ Marks

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(b) The following information was extracted from the accounting records of Mambiri Corporation, a manufacturing enterprise, for the year ended 31 January 2010.

		K
Opening inventory balances:	Finished inventories	375,000
	Raw materials	99,000
	Work in progress	122,500
Expenses:	Direct labour	750,000
	Indirect labour	425,000
	Depreciation of plant	75,000
	Other factory expenses	37,500
	Purchases of raw materials	475,000
	Carriage inwards	10,000
	Non factory overheads	355,250
	Distribution expenses	406,000
Closing inventory balances:	Finished inventories	495,000
	Raw materials	189,000
	Work in progress	227,500
Sales		2,880,000

Required:

Prepare a schedule of Production Costs for Mambiri Corporation. **7½ Marks**

(TOTAL : 20 MARKS)

7. (a) State the difference and the similarity between a provision and a contingent liability. **4 Marks**

(6) State the difference between revenue expenditure and capital expenditure. Support your answer with one example for each. **4 Marks**

(7) State whether each of the following independent events is an accounting policy or not:

(i) Non-current assets with a useful life should be depreciated.
(ii) Chuma Ltd provides for doubtful debts at 1% on accounts receivable.
(iii) The market price of ordinary shares for Malumo Ltd is K250.
(iv) Chamwabvi Ltd uses the First-In-First-Out (FIFO) stock valuation method. **4 Marks**

(8) Define the following accounting terms:

(i) Amortization in mortgages
(ii) Sleeping partner
(iii) Prudence concept
(iv) Market capitalization. **8 Marks**

(TOTAL : 20 MARKS)

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