

EXAMINATION NO. _____

THE PUBLIC ACCOUNTANTS EXAMINATION
COUNCIL OF MALAWI

2014 EXAMINATIONS

ACCOUNTING TECHNICIAN PROGRAMME

PAPER TC 6: ACCOUNTING/2

THURSDAY 29 MAY 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. 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.

1. Zama Ltd has its head office in the Central Region and a branch in Zomba. All goods sold by the branch are supplied by the head office at cost plus 10%.

The trial balances for the head office and branch as at 31 December 2013 were as follows:

	Head office		Branch	
	Dr K'000	Cr K,000	Dr K'000	Cr K,000
Share capital		260,000		
Profit and loss account		125,000		
Head office current account				79,500
Branch current account	85,000			
Non-current assets	345,000		70,000	
Inventories 1 January 2013	48,500		15,400	
Accounts receivable	60,400		14,700	
Accounts payable		35,000		37,200
Provision for depreciation		13,700		16,400
Remittances to head office			26,000	
Remittances from branch		22,000		
Bank and cash	15,900		3,100	
Purchases	255,000		44,600	
Sales		229,700		199,700
Goods sent to branch		154,000		
Goods from head office			148,500	
Provision for unrealized profit		1,400		
Administration expenses	<u>31,000</u>		<u>10,500</u>	
	<u>840,800</u>	<u>840,800</u>	<u>332,800</u>	<u>332,800</u>

Additional information

- (1) Inventories at 31 December 2013, not including goods in transit, were valued as follows:

Head office, at cost K32,600

Branch: received from head office K16,500 and own purchases K8,000.

- (2) Branch inventories at 1 January 2013 consisted wholly of goods received from the head office.
- (3) Depreciation is to be provided on non-current assets at 20% on cost per annum.
- (4) On 1 October 2013 some goods sent by the head office to branch were destroyed by fire. No entry was made for the loss. The invoice value of the goods was K11,000.

Required:

- (a) Prepare separate income statements for the year ended 31 December 2013 for the head office and branch. **9½ Marks**
- (b) Prepare the combined statement of financial position for head office and branch as at 31 December 2013. **10½ Marks**

(TOTAL : 20 MARKS)

2. The following information was extracted from the accounting records of Limodzi Ltd:

Statement of financial position as at 30 June

		2013		2012
	K	K	K	K
Non-current assets				
Land at cost		100,000		80,000
Buildings at cost	300,000		300,000	
Accumulated depreciation	<u>(100,000)</u>		<u>(90,000)</u>	
		200,000		210,000
Equipment at cost	120,000		160,000	
Accumulated depreciation	<u>(71,000)</u>		<u>(85,000)</u>	
		49,000		75,000
		349,000		365,000
Goodwill net of amortization		<u>40,000</u>		<u>45,000</u>
		389,000		410,000
Current assets				
Inventory		61,000		43,200
Account receivables		85,500		90,000
Prepaid expenses		3,100		1,800
Bank		94,900		14,000
		<u>244,500</u>		<u>149,000</u>
Less: current liabilities				
Accounts payable		61,200		48,500
Expenses accrued		2,900		4,000
Dividends payable		<u>30,000</u>		<u>15,000</u>
		94,100		67,500
Net assets		<u>539,400</u>		<u>491,500</u>
Ordinary share capital		290,000		235,000
Retained earnings		<u>169,400</u>		<u>156,500</u>
		459,400		391,500
Long term liabilities				
Bank loan		<u>80,000</u>		<u>100,000</u>
Net assets		<u>539,400</u>		<u>491,500</u>

Income statement extract for the year ended 30 June 2013

	K
Turnover	1,080,000
Cost of sales	<u>(464,100)</u>
	615,900
Operating expenses	<u>(304,000)</u>
Operating profit	311,900
Interest expense	(8,000)
Loss on sale of equipment	<u>(3,000)</u>
Profit before tax	300,900
Income tax expense	<u>(168,000)</u>
	132,990
Dividends	<u>(120,000)</u>
Retained profit for the year	<u>12,990</u>

Continued/.....

Additional information

Equipment with a cost of K40,000 and accumulated depreciation of K29,000 was disposed off during the accounting year ended 30 June 2013.

Required:

Prepare a statement of cash flows for the year ended 30 June 2013 using the indirect method.

20 Marks

NOT FOR SALE

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3. Mwanza, Tafa and Zama are in partnership and have been sharing profits in the ratio 3:2:1 respectively.

The partnership statement of financial position as at 31 December 2013 was as follows:

Non-current assets	K'000
Premises	900,000
Machinery and equipment	250,000
Motor vehicles	<u>180,000</u>
	<u>1,330,000</u>
Current assets	
Inventories	150,000
Accounts payables	95,000
Bank	<u>80,000</u>
	<u>325,000</u>
Less: Current liabilities	
Accounts payables	<u>40,000</u>
Net assets	<u>1,615,000</u>
Capital accounts	
Mwanza	555,000
Tafa	450,000
Zama	<u>610,000</u>
	<u>1,615,000</u>

Additional information

- (1) The partners decided to admit Chefu as a new partner with effect from 1 January, 2014 and Chefu was asked to contribute K200,000 cash as his capital.
- (2) The partners agreed to share profits and losses equally amongst themselves under the new partnership.
- (3) The assets were revalued before Chefu's admission as follows:

	K
Premises	1,050,000
Machinery and equipment	180,000
Motor vehicles	200,000
Inventories	110,000
- (4) Goodwill was valued at K600,000 and was not to be maintained within the books of the new partnership.

Required:

- (a) Prepare the partnership capital accounts to reflect the above changes. **12½ Marks**
- (b) Draw up a draft statement of financial position for the new partnership as at 1 January 2014. **6 Marks**
- (c) Define the term "unlimited liability" as stipulated in a business partnership. **1½ Marks**

(TOTAL : 20 MARKS)

4. The treasurer of the Linthipe Club presented the following receipts and payments account for 2013:

Receipts and payments account			
	K		K
Opening bank balance 1 January 2013	8,000	Refund of 2011 subscription overpaid	200
Add receipts		Wages of sports staff	99,000
Subscriptions 2012	6,000	Printing and advertising	7,500
2013	84,000	Repairs to photocopier	5,000
Competition entry fees	10,500	Competition prizes	6,000
Proceeds from sale of sports equipment	7,000	Dance expenses	4,500
Sale of dance tickets	8,200	Sports equipment purchased	36,000
Bank overdraft at 31 December 2012	<u>42,700</u>	Sundry expenses	<u>8,200</u>
	<u>166,400</u>		<u>166,400</u>

As the treasurer did not have adequate knowledge of accounting, you have been asked to prepare an income and expenditure account and a statement of financial position for a special meeting of members.

The club's assets and liabilities at the start and end of 2013 were as follows:

	1 January	31 December
	K	K
Subscriptions due from members	6,000	5,200
Subscriptions received in advance	2,800	-
Stock of competition prizes	3,500	2,000
Value of photocopier (cost K20,000)	14,000	12,000
Sports equipment (net book value)	40,000	50,000
Sports equipment (cost)	150,000	86,000

Sports equipment with a net book value of K20,000 on 1 January 2013 was sold during the year. The equipment had been owned for exactly five years prior to its sale and had been depreciated on the straight line basis with an estimated useful life of five years.

Required:

- Prepare an income and expenditure statement for Linthipe Club for the year ended 31 December 2013. **12 Marks**
- Prepare a statement of financial position for the club as at 31 December 2013. **6 Marks**
- Apart from the methods mentioned in the receipts and payments account above, state **two** other methods that Linthipe Club could use to raise additional funds to improve its financial position. **2 Marks**

(TOTAL : 20 MARKS)

Continued/.....

5. (a) Zamula Ltd started trading on 1 January 2011. Its issued share capital was 450,000 ordinary shares of K1 each and 450,000 6% preference shares of K1 each. The following information is also available:

- (1) Its net profits for the first three years of business were K5,678,400, K6,792,100 and K3,706,090, for 2011, 2012 and 2013 respectively.
- (2) Preference dividends were outstanding for each of these years, whilst ordinary dividends were proposed at 3%; for 2011, 10% for 2012, and 5% for 2013.
- (3) Corporation tax payable on the profits was K1,254,600 for 2011, K1,671,100 for 2012 and K987,800 for 2013.
- (4) Transfers to the general reserve amounted to K700,000 for 2012 and K200,000 for 2013.

Required:

- (i) Draw up Zamula Ltd's retained profit accounts for 2011, 2012 and 2013. **9½ Marks**
- (ii) Prepare extracts of accumulated current liabilities, capital reserves and retained profit accounts as at the end of each of the three years. **4¼ Marks**
- (iii) State the advantage of holding preference shares over ordinary shares in respect of dividend payouts. **1¾ Marks**

- (b) The following financial information has been extracted from the books of accounts of Tatha Ltd:

Statement of financial position as at 31/12/2013

	K
Net assets	155,000
Cash and bank	<u>80,000</u>
	<u>235,000</u>
Ordinary share capital	100,000
Preference share capital	40,000
Share premium	20,000
Profit and loss	<u>75,000</u>
	<u>235,000</u>

Tatha Ltd redeemed 50,000 K1 ordinary shares at par. No new funding was raised to finance the redemption of the shares.

Required:

- (i) Prepare journal entries to record the redemption of shares transaction. **2½ Marks**
- (ii) Prepare Tatha Ltd's statement of financial position as at 31 December 2013 after the redemption of ordinary shares. **2 Marks**

(TOTAL : 20 MARKS)

6. (a) A review of the year end books and records of a company revealed that the following transactions had not yet been recorded:

Trial balance as at 31 December 2013

- (1) During the year the company purchased a piece of machinery on credit with a list price of K1,900,000 (excl VAT). The cost price excluded delivery costs of K80,000 (excl VAT) and a one year maintenance contract for K70,000 (excl VAT). VAT is charged at 16.5%.
- (2) The company entered into an 8 year finance lease for a new machine on 1 January 2013. The lease agreement requires 8 annual payments of K250,000, with the first annual payment due on 31 December 2013 and subsequent payments due annually thereafter. The present value of minimum lease payments is K1,333,730 and the interest rate implicit in the lease is 10%. The asset must be depreciated evenly over the life of the lease.
- (3) Additional architect's fees incurred of K220,000 have not yet been paid or recorded. These fees were in addition to the original fees quoted and arose as a result of management's decision to re-design original plans.

Required:

Prepare the journal entries to show how each of the above items should be dealt with in the final accounts for the year ended 31 December 2013. **12¼ Marks**

- (b) A direct mail marketing company acquired a customer address list for K500,000 and expected to be able to derive benefit from using the list for three years.

Required:

- (i) Prepare journal entries to record the acquisition and use, in the first year, of the customers' address list. **2¾ Marks**
- (ii) Define the term "amortization". **2 Marks**
- (iii) Briefly explain the difference between positive goodwill and negative goodwill. **3 Marks**

(TOTAL : 20 MARKS)

Continued/.....

7. (a) Explain the following accounting terms:

- (i) Economic life
- (ii) Property, plant and equipment
- (iii) Accrual basis of accounting
- (iv) Accounting policies
- (v) Materiality

10 Marks

(b) Classify the following into biological assets and agricultural produce:

- | | |
|---------------------------------|---------------|
| (i) picked fruit | ½ Mark |
| (ii) dairy cattle | ½ Mark |
| (iii) sheep | ½ Mark |
| (iv) trees in plantation forest | ½ Mark |
| (v) animal carcass | ½ Mark |
| (vi) bushes | ½ Mark |
| (vii) logs | ½ Mark |
| (viii) milk | ½ Mark |
| (ix) cotton | ½ Mark |
| (x) wool. | ½ Mark |

(d) State **two** advantages and **two** disadvantages of using computers in accounting systems.

5 Marks

(TOTAL : 20 MARKS)

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