

**INSTITUTE OF BANKERS IN MALAWI**

**ADVANCED DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: FINANCIAL & MANAGEMENT ACCOUNTING**

**(IOBM – AD 307)**

**Date: Thursday, 12th May 2016**

**Time Allocated: 3 hours (08:00 – 11:00 Hours)**

**INSTRUCTIONS TO CANDIDATES**

1 This paper consists of **TWO** Sections, A and B.

2 Section A consists of 4 questions, each question carries 15 marks.

Answer **ALL** questions.

3 Section B consists of 4 questions each question carries 20 marks. Answer **ANY TWO** questions.

4 You will be allowed **10 minutes** to go through the paper before the start of the examination, you may write on this paper but not in the answer book.

5 Begin each answer on a new page.

6 **Please write your examination number on each answer book used. Answer books without examination numbers will not be marked.**

7 All persons writing examinations without payment will risk expulsion from the Institute.

8 If you are caught cheating, you will be automatically disqualified in all subjects seated this semester.

9 DO NOT open this question paper until instructed to do so.

**SECTION A (60 MARKS)**

Answer **ALL** questions from this section.

**QUESTION 1**

The following balances have been drawn from the financial records of XYZ Partnership as at 31 December 2015:

|  |  |
| --- | --- |
|  | **K000** |
| Capital - X | 4,000 |
| Y | 3,500 |
| Z | 2,500 |
| Current Accounts :X | 1,200 |
| Y | 1,050 |
| Z | 950 |
| Buidings | 10,200 |
| Motor vehicles | 4,000 |
| Inventories | 800 |
| Trade receivables | 2,200 |
| Trade payables | 2,000 |
| Bank (debit) | 400 |
| Long term loan | 3,000 |
| Prepayments | 600 |

**Required :**

1. Prepare a Statement of Financial Position for XYZ Partnership as at 31 December 2015. *(7 marks)*

1. Explain **four** challenges which a partnership might face when there is no partnership agreement. *(8 marks)*

**(Total 15 marks)**

**QUESTION 2**

The following information relates to the details of sales and purchase transactions for the month of December 2015 for a retailer trading in soft drinks:

|  |  |  |
| --- | --- | --- |
| Date | Description | Quantities |
| 1 | Opening balance | 4,000 cans at K240 each |
| 2 | Puchases | 10,000 cans at K280 each |
| 5 | Sales | 8,000 cans at K400 each |
| 7 | Purchases | 6,000 cans at K280 each |
| 20 | Purchases | 12,000 cans at K300 each |
| 25 | Sales | 14,000 cans at K400 each |

**Required:**

Calculate the value of the inventories at the end of the month of December 2015 using:

1. First in First out (FIFO); *(6 marks)*
2. Weighted average cost (AVCO). *(9 marks)*

**(Total15 marks)**

**QUESTION 3**

Matabwa Company intends to prepare budgets for next year. An accountant has consulted all the departments in the company and has prepared the following schedules:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Material | | Cost per unit | | | Opening inventories | | Closing inventories | | |
| AA | | 48 | | | 5,000 | | 6,000 | | |
| BB | | 104 | | | 5,000 | | 1,000 | | |
| Finished goods | Material AA | | Material BB | Direct Labour | | Opening inventories | | Closing inventories | Expected sales | |
| Product X | 12 units | | 6 units | 14 hours | | 100 units | | 1100 units | 5,000 units | |
| Product Y | 12 units | | 8 units | 20 hours | | 50 units | | 50 units | 1,000 units | |

|  |  |
| --- | --- |
| Item | K |
| Direct labour per hour | 82 |
| Selling per unit - Product X | 4,216 |
| Selling per unit - Product Y | 6,560 |

Production overheads have been budgeted at K8,320,000. They are absorbed on the basis of direct-labour hours.

**Required:**

Prepare the following budgets:

* 1. Sales *(2 marks)*
  2. Production  *(3 marks)*
  3. Direct materials *(3 marks)*
  4. Direct materials purchases *(2 marks)*
  5. Direct-labour  *(2 marks)*
  6. Finished goods closing inventory  *(3 marks)*

**(Total 15 marks)**

**QUESTION 4**

Mangochi Manufacturing Company produces diving equipment. The company recently developed standards for one type of diving equipment, the CHAMBO. The standard costs for one set of CHAMBO are shown in the following table:

|  |  |
| --- | --- |
| Item | K |
| 8 kgs of fibreglass at K600 per kg | 4,800 |
| 4 direct labour hours at K4,000 per hour | 16,000 |
| Total direct materials and direct labour | 20,800 |

During the month of April 2015, Mangochi purchased 9,500 kg of fibreglass for K6,080,000 and used 7,850 kg in the production of 950 diving equipments. The direct labour used during the month amounted to 3,420 hours and cost K13,406,400.

**Required:**

1. Explain **four** advantages of standard costs.  *(7 marks)*
2. Calculate:
   * 1. Materials usage variance *(2 marks)*
     2. Material price variance *(2 marks)*
     3. Labour rate variance *(2 marks)*
     4. Labour efficiency variance *(2 marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer **ANY TWO** questions from this section

**QUESTION 5**

The trial balance of Malombe Limited as at 31 December 2015 is as follows:

|  |  |  |
| --- | --- | --- |
|  | K000 | K000 |
| Ordinary share capital – K1 shares |  | 1,000 |
| Retained profits as at 1 January 2015 |  | 122 |
| Inventory – 1 January 2015 | 368 |  |
| Sales |  | 2,640 |
| Returns inwards | 68 |  |
| Purchases | 1,240 |  |
| Carriage inwards | 12 |  |
| Wages (putting goods into a sealable form) | 204 |  |
| Wages and salaries ( Warehouse staff) | 104 |  |
| Wages and salaries(Administrative staff) | 118 |  |
| Wages and salaries (Sales staff) | 134 |  |
| Motor expenses (note i) | 58 |  |
| General distribution expenses | 114 |  |
| General administrative expenses | 24 |  |
| Loan interest | 8 |  |
| Commission receivable |  | 10 |
| Directors’ remuneration | 168 |  |
| Irrecoverable debts | 20 |  |
| Discounts | 28 | 22 |
| Plant and machinery at cost (note ii) | 480 |  |
| Provision for depreciation : Plant and machinery (iii) |  | 144 |
| Motor vehicles at cost (note i) | 240 |  |
| Provision for depreciation : Motor vehicles (note iii) |  | 96 |
| Patents | 448 |  |
| Trade receivables | 376 |  |
| Trade payables |  | 90 |
| Bank overdraft |  | 28 |
| Long term loan |  | 60 |
|  | 4,212 | 4,212 |

The following information is also available:

1. Motor expenses and depreciation on motors should be apportioned as follows : Distribution 80 percent and Administration 20 percent.
2. Plant and machinery depreciation should be apportioned: Cost of sales 70 percent, Distribution 20 percent and Administration 10 percent.
3. Depreciate motor vehicles at 20 percent on cost and Plant and machinery at 15 percent on cost.
4. Accrue corporation tax on profits for the year K76,000. This is payable on 31 December 2015.
5. Inventories of finished goods on 31 December 2015 was K326,000.

**Required:**

1. Prepare an income statement for the year ended 31 December 2015 suitable for publication. *(10 marks)*
2. Draw up a statement of financial position as at 31 December 2015 suitable for publication.  *(10 marks)*

**(Total 20 marks)**

**QUESTION 6**

On 1 April 2015, Njale Limited Company acquired 100 percent of the ordinary share capital of Bale Company at a cost of K12,336,000. On the same day it also acquired 50 percent of Bale’s 10 percent loan notes at par. The summarised draft financial statements of both companies are shown below:

**Statements of Comprehensive Income for the year ended 31 December 2015**

|  |  |  |
| --- | --- | --- |
|  | **Njale** | **Bale** |
|  | **K000** | **K000** |
| Revenue | 72,000 | 28,800 |
| Cost of Sales | -50,400 | -24,000 |
| Gross Profit | 21,600 | 4,800 |
| Operating Expenses | -7,200 | -240 |
| Profit Before Interest and Tax | 14,400 | 4,560 |
| Loan Interest Received /(Paid) | 90 | -240 |
| Profit Before Tax | 14,490 | 4,320 |
| Taxation | -3,600 | -720 |
| **Profit for the Year** | **10,890** | **3,600** |

The following information is relevant:

1. The fair values of Bale’s assets were equal to their book values with the exception of its non-depreciable land, which had a fair value of K3.84 million in excess of its book value at the date of acquisition. Bale has not adjusted the value of its plant as a result of the fair value exercise.
2. In the post acquisition period, Njale sold goods to Bale at a price of K14.4 million. These goods had cost Njale K10.8 million. During the year Bale had sold K12 million (at cost to Bale) of these goods for K18 million.
3. Revenues and profits should be deemed to accrue evenly throughout the year.
4. An impairment test on 31 December 2015 showed that consolidated goodwill should be written down by K120,000.

**Required:**

1. Prepare a statement of comprehensive income (statement of profit or loss) for the group for the year ended 31 December 2015.  *(10 marks)*

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1. Discuss the circumstances under which a parent may be exempted from preparing consolidated financial statements. *(10 marks)*

**(Total 20 marks)**

**QUESTION 7**

The production of product Yellow requires two distinct processes, A and B. On completion, the product is passed from process B to finished inventories. During the month of November 2015, the following information was obtained in relation to product Yellow.

|  |  |  |
| --- | --- | --- |
|  | **Process A** | **Process B** |
| **Element of cost** | **K000** | **K000** |
| Direct materials | 60,000 | 16,000 |
| Direct labour | 10,000 | 12,000 |
| Direct expenses | 4,000 |  |

The following additional information is relevant:

* 1. Total production overheads amounted to K66m and are absorbed by the processes on the basis of 300 percent of direct wages.
  2. Production during the period was 1,000 units.
  3. There were no inventories of raw materials or work in progress either at the beginning or at the end of the period.
  4. Normal loss for process B is 50 units.
  5. There were no abnormal gains or abnormal losses at the end of Process B.

**Required:**

1. Prepare Process A and Process B accounts. *(15 marks)*
2. Explain how abnormal gains and abnormal losses are accounted for in relation to process costing.  *(5 marks)*

**(Total 20 marks)**

**QUESTION 8**

The Ndirande Manufacturing Company makes an electrical component for use on a range of heating equipment. Sales for 2015 were K80m, with each component being sold for K200. During the year, the firm has not been operating at its maximum capacity. The company has been operating at 80 percent of its capacity. There are proposals being considered to enable the firm to increase sales.

Details of the cost structure is as follows:

|  |  |
| --- | --- |
| Item | K |
| Prime cost per unit | 80 |
| Variable overheads: |  |
| Production | 800,000 |
| Selling | 1,600,000 |
| Distribution | 1,200,000 |
| Fixed : |  |
| Production | 3,200,000 |
| Selling | 1,800,000 |
| Distribution | 800,000 |
| Administration | 14,400,000 |

In addition to these costs, commission of 5% on sales value is paid to agents who sell these products.

**Required:**

1. Calculate the break-even point in sales revenue.  *(2 marks)*
2. Prepare statements to show revenue, costs and profit at
3. The present level of sales
4. If the unit selling price is reduced by 5% which should increase sales volume by 12.5%
5. If the unit selling price is reduced by 10% which should increase sales volume by 25%.  *(14 marks)*

1. Identify any problems that the firm might encounter if it operated at the level that gives the greatest profit.  *(4 marks)*

**(Total 20 marks)**

**END OF EXAMINATION PAPER**