

**INSTITUTE OF BANKERS IN MALAWI**

**ADVANCED DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: FINANCIAL AND MANAGEMENT ACCOUNTING**

**(IOBM -AD317)**

**Date: Tuesday, 15th May 2018**

**Time Allocated: 3 hours (13:30 – 16:30 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**

Matandala Company manufactures two products namely Alter and Vinum. The following information is for the month of June 2018.

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Alter** | **Vinum** |
| Sales (Units) | | 2,000 | 4,000 |
| Sales Prices (K) | | 100 | 120 |
| Materials - Kg per Unit | M-1 | 4 | 3 |
| M-2 | 2 | 3 |
| Finished Goods | 1 June 2018 | 2,000 | 3,000 |
|  | 30 June 2018 | 2,200 | 3,300 |

|  |  |  |
| --- | --- | --- |
|  | **Material : M-1** | **Material : M-2** |
| Inventories - 1 June 2018 (Kgs) | 52000 | 40000 |
| Inventories - 31 June 2018 (Kgs) | 62400 | 48000 |
| Unit Cost (K) | 4 | 6 |

**Required:**

Prepare the following budgets for the month of June 2018:

1. Sales in quantities and values including total values *(3 marks)*
2. Production quantities *(4 marks)*
3. Materials to be purchased in quantities (*5 marks)*
4. Materials purchases in monetary values including total values *(3 marks)*

**(Total 15 marks)**

**QUESTION 2**

1. Describe the **five** categories of costs which are based on how costs behave and give an appropriate example for each category. *(12 marks)*
2. Explain the following terms in as far as they relate to limited companies:
   1. Ordinary shares *(1 mark)*
   2. Preference shares  *(1 mark)*
   3. Issued share capital *(1 mark)*

**(Total 15 marks)**

**QUESTION 3**

1. Explain **five** differences between financial accounting and management accounting.

*(5 marks)*

1. Explain the importance of the following concepts in accounting:
   1. Business entity (*2 marks)*
   2. Going concern *(2 marks)*
   3. Prud
   4. ence *(2 marks)*
   5. Consistency *(2 marks)*
   6. Accruals *(2 marks)*

**(Total 15 marks)**

**QUESTION 4**

Ndunde Company produces a product called Need. Need is processed in a single process. The following information relates to the production of Need for the month of January 2017.

|  |  |
| --- | --- |
| Inputs |  |
| Materials | 100,000 kg at K3 per kg |
| Labour | 32,000 hours at K6 per hour |
| Overheads | K246,400 |

Additional information:

i. Normal loss is 4 percent of input

ii. Scrap value of normal loss and abnormal loss is K5 per kg

iii. Finished output amounted to 84,000 units

iv. There was no opening or closing work –in-progress

**Required:**

a) Prepare a process account for the month of January 2017. *(11 marks)*

b) Explain the importance of process accounting *(4 marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer ANY **TWO** questions from this section

**QUESTION 5**

Describe the **five** components which make up a complete set of financial statements as required by the International Accounting Standards Board (IASB).

**(Total 20 marks)**

**QUESTION 6**

On 1 January 2017 Akude acquired 70% of Tonse’s equity shares for a cash consideration of K200 million. Akude has no other investments. The summarised statements of financial position of the two companies at 31 December 2017 are:

|  |  |  |
| --- | --- | --- |
|  | **Akude** | **Tonse** |
| **Assets** | **Km** | **Km** |
| **Non-Current Assets** |  |  |
| Property, plant and Equipment | 700 | 300 |
| Intangible Assets | 70 | 45 |
| Investment in Tonse | 200 | 0 |
| **Total Non-Current Assets** | **970** | **345** |
| **Current Assets** |  |  |
| Inventory | 190 | 110 |
| Trade Receivables | 210 | 180 |
| Bank | 40 | 40 |
| **Total Assets** | **1,410** | **675** |
|  |  |  |
| **Equity and Liabilities** |  |  |
| **Equity** |  |  |
| Equity Shares of K1 each | 400 | 100 |
| Share Premium | 110 | 0 |
| Retained Earnings | 390 | 385 |
| **Total Equity** | **900** | **485** |
| **Non- Current Liabilities** |  |  |
| Long Term Loan | 300 | 100 |
| **Current Liabilities** |  |  |
| Trade Payables | 110 | 70 |
| Taxation | 100 | 20 |
| **Total Equity and Liabilities** | **1,410** | **675** |

The following information is relevant:

* 1. At the date of acquisition the fair value of Tonse’s property, plant and equipment was equal to its carrying amount.
  2. Retained earnings of Tonse stood at K25 million at the date of acquisition
  3. At 31 December 2017 Akude’s current account with Tonse was K 10 million (debit).
  4. Akude does not measure the non-controlling interest at fair value at the date of acquisition.

**Required:**

Prepare the consolidated statement of financial position for Akude Group as at 31 December 2017.

**(Total 20 marks)**

**QUESTION 7**

1. Explain how the following transactions are accounted for in the books of a partnership:
2. Drawings
3. Partners’ salaries
4. Interest on capital
5. Share of profit or loss
6. Interest on drawings *(1 mark for each)*
7. Sibongile and January are partners in a spare parts selling business. The individual capital contributions in the business made by Sibongile and January were K800,000 and K400,000 respectively. The opening current account balance for Sibongile was K70,000 while that of January was K60,000 as at 1 January 2016. The partnership follows a normal calendar year.

The following information relates to the partnership :

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **Net profit before appropriation adjustments** | **Drawings** | |
| **Sibongile** | **January** |
| 2016 | 380,000 | 130,000 | 170,000 |
| 2017 | 290,000 | 120,000 | 200,000 |

The partners had agreed that:

* 1. Salaries for Sibongile and January will be pegged at K100,000 and K140,000 respectively.
  2. Interest should be allowed on capital at 7% per annum.
  3. The profit remaining or losses should be shared equally between the two partners.

**Required:**

1. Prepare profit and loss appropriation accounts for the two periods. *(7 marks)*
2. Prepare the partners’ current accounts for the two periods. (*8 marks)*

**(Total 20 marks)**

**QUESTION 8**

Upile IT Company produces and sells computer software. Estimated units to be sold and other relevant data for next year are as follows:

|  |  |
| --- | --- |
|  | K |
| Selling price | 6,000 |
| Variable costs: |  |
| Labour | 2,000 |
| Materials | 400 |
| Selling | 100 |

Anticipated fixed costs for the year are K800,000 for administration and K600,000 for selling and distribution. Estimated sales for the year are 2,000 units.

**Required:**

1. Calculate the breakeven point in terms of number of units sold and sales revenue.

*(5 marks)*

b) Determine the margin of safety as a percentage of estimated sales. *(3 marks)*

c) If the company’s profit target is K560,000, calculate the number of units the company should sell. *(3 marks)*

d) Due to the launch of Buy Malawi Strategy Campaign, the company is likely to win a Government tenders in which it will be required to supply 6,000 units per year in each year of the contract to a number of Government departments.

**Required:**

Discuss **five** possible implications for the cost/volume/ profit model employed above if the company wins the overseas contact and expands accordingly. *(9 marks*

**(Total 20 marks)**

**END OF EXAMINATION PAPER**