

**INSTITUTE OF BANKERS IN MALAWI**

**ADVANCED DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: FINANCIAL AND MANAGEMENT ACCOUNTING**

**(IOBM – AD 307)**

**Date: Thursday, 10th November 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 is the budgeted data for Chowe Enterprises for the month of March 2015:

Sales: 50,000 units @ K15 per unit

Production materials: 10,000 litres costing K12 per litre

Variable overheads: K3 per unit

Direct labour: 2600 hours at K60 per hour

Fixed overheads: K150,000

**Required:**

(a) Calculate the break-even point in terms of sales volume. *(5 marks)*

(b) Compute the sales volume needed in order to make a profit of K450,000.

*(3 marks)*

(c) What is the margin of safety in the month of March 2015. *(3 marks)*

(d) Workers are demanding a rate of K80 per hour in the month of March 2015, what will be the impact of this on the profit or loss for the month? *(4 marks)*

**(Total 15 marks)**

**QUESTION 2**

The following data relates to Nkalo Manufactures for the month of May 2015:

Direct labour was budgeted at 3,000 hours to be paid at the rate of K75 per hour to produce 18,000 units.

Direct materials were budgeted at 6,000Kg to be bought at a total price of K120,000 in order to produce 18,000 units.

Actual units produced were 20,000 using 7,200Kg which cost K129,600.

Direct labour wages paid amounted to K232,000 over 3,200 hours.

**Required:**

1. Calculate the direct material price variance.  *(2 marks)*
2. Calculate the material usage variance. *(3 marks)*
3. Calculate the labour rate variance. *(3 marks)*
4. Calculate labour efficiency variance. *(3 marks)*
5. Prepare the Work in Progress account. *(4 marks)*

**(Total 15 marks)**

**QUESTION 3**

Mzee Limited acquired 4,000 of the 5,000 ordinary shares of Mtoto Limited in 2012 when the retained earnings for Mtoto were K1,200,000. The following are the statements of Financial position of the two companies as at 31 March 2015:

Mzee Ltd Mtoto Ltd

Non Current assets 13,000,000 5,340,000

Investment in Mtoto 5,000,000

Current assets 4,580,000 4,120,000

Current liabilities (880,000) (660,000)

**21,700,000** **8,800,000**

Ordinary Share Capital 15,000,000 5,000,000

Retained Earnings 6,700,000 3,800,000

**21,700,000** **8,800,000**

Note:

Included within both statements of Financial Position is an amount of K620,000 that Mzee owes Mtoto.

**Required:**

Prepare a consolidated statement of Financial Position for Mzee Group as at 31 March 2015. **(Total 15 marks)**

**QUESTION 4**

The following is a summarised Statement of Financial Position for Likama Limited as at 31 January 2015:

K’000

Non-current assets 3,000

Inventory 250

Receivables 410

Bank 1,340

**5,000**

K1 Ordinary share capital 1,500

Share premium 650

Retained earnings 2,310

Payables 540

**5,000**

On 31 January 2015, a resolution was passed to redeem 20% of the shares at a price of K3 per share by using the share premium account first then the retained earnings.

Required:

1. Prepare journals to effect the redemption of the shares. *(8 marks)*
2. Prepare a revised Statement of Financial Position as at 31 January 2015 just after the redemption of shares. *(7 marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer **ANY TWO** questions from this section

**QUESTION 5**

1. Explain **four** limitations of absorption costing and explain why it is still used by several entities. *(8 marks)*
2. Explain by giving five reasons why CVP analysis is not a good tool in management accounting and what advice can you offer to management that appears to place much reliance on CVP analysis. *(12 marks)*

**(Total 20 marks)**

**QUESTION 6**

Amidu and Jossam have been in partnership sharing profits and losses equally. The following is the trial balance of the partnership for the year ended 30 November 2015.

Dr Cr

‘000 ‘000

Sales 218,000

Receivables 89,500

Capital- Amidu 50,000

Capital- Jossam 42,000

Drawings- Amidu 175

Drawings- Jossam 203

Purchases 173,425

Rent 2,400

Wage 3,400

Motor vehicles 66,980

Electricity 550

Carriage inwards 322

Current Account- Amidu 97

Current account- Jossam 12

Accounts payable 17,400

Discount received 1,200

Provision for bad debts 3,500

Accumulated depreciation 950

Return inwards 4,200

Stock 01/12/2014 210

Notes:

(a) Included in rent is K120,000 for the month of December 2015

(b) Depreciation for motor vehicles is provided at 20% reducing balance

(c) Stock was valued at K118,000 on 30 November 2015

(d) Jossam was entitled to a monthly salary K35,000 but this was not included in the trial balance

(e) Partners were to receive 10% interest on capital contributed and charged 30% for drawings made during the year.

(f) Bad debt provision should be 2% of closing receivables

**Required:**

Prepare the trading, profit and loss and appropriation accounts for Amidu and Jossam for the year ended 30 November 2015.  *(14 marks)*

Prepare the combined capital and current accounts for the partners as at 30 November 2015.  *(6 marks)*

**(Total 20 marks)**

**QUESTION 7**

Computation of cash budget for some months given opening and closing balances and patterns of payments and receipts. Include elements that will not have any bearing in cash movements.

1. Balance at bank as at 31 May 2015 was overdraft of K450,000.
2. Raw material purchases would be done on credit as follows: April 2015- K1,350,000, May 2015- K1,280,000, June 2015- K1,375,000,July 2015- K1,324,000, August 2015- K1,270,000, September 2015- K1 282,000.
3. Suppliers of raw materials are paid after 60 days.
4. Sales were budgeted at K2,300,000 from January 2015 and expected to increase by 5% in April, July and October. 20% of sales are usually on cash and the rest paid after 30 days.
5. Wages and salaries were planned as follows: May- K450,000, June- 480,000, July- K470,000, August- K462,000, September- K434,000. Wages and salaries are paid at the end of the month to which they relate.

Office buildings which cost K2 million in 2010 are depreciated at 5% per annum straight line and part of them are let out at K80,000 per month paid in advance every quarter beginning 1st January each year.

1. Purchase computers worth K1,800,000 in July on cash basis in July 2015.

**Required:**

Prepare a cash budget for the three months ending 31 August 2015 for Mtwiche Limited using the above information. (**Total 20 marks)**

**QUESTION 8**

The following is the summarised profit and loss account and balance sheets for Ighembe Limited:

Profit and Loss Account for the year ended 30 April 2015

K’000

Turnover 8,700

Cost of sales (4,562)

Gross Profit 4,138

Operating expenses (1,890)

Interest paid (92)

Tax (485)

Dividend declared (1,200)

Retained earnings **471**

Statements of financial position as at 30 April 2015 and 30 April 2014

2015 2014

K’000 K’000

Non current assets (NBV) 8,400 K2,100

Inventory 1,370 310

Receivables 1,430 390

Bank and cash 1,276 245

Total assets **12,476 3,045**

Current liabilities

Trade creditors (1,572) (489)

Tax (560) (318)

Dividend (748) (248)

Total current liabilities (2,880) (1,055)

Net Assets 9,**596**  **1,990**

K1,000 Ordinary Shares 3,000 1,000

Share Premium 1,065 65

Retained Earnings 1,096 625

Loan 4,435 300

**9,596 1,990**

Notes:

(a) Included within operating expenses is depreciation of K310,000

(b) During the year, motor vehicles that had a net book value of K450,000 were sold at a profit of K120,000.

**Required:**

Prepare a statement of cash flows for Ighembe Limited for the year ended 30 April 2015 using the indirect method. **(Total 20 marks)**

**END OF THE EXAMINATION PAPER**