

**INSTITUTE OF BANKERS IN MALAWI**

**CERTIFICATE IN BANKING EXAMINATION**

**SUBJECT: INTRODUCTION TO BUSINESS ACCOUNTING**

**(IOBM – C101)**

**Date: Monday, 13th November 2017**

**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 20 multiple questions, each question carries 2 marks.

Answer **ALL** questions.

3 Section B consists of 5 questions, each question carries 20 marks. Answer **ANY THREE** questions.

4 You will be allowed **10 minutes** to go through the paper before the start of the examination when 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. All answer books without examination number 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 (40 MARKS)**

Answer **ALL** questions from this section.

1. Which of the following equations presents the Accounting Equation?
   1. Liabilities = Capital - Assets + Drawings
   2. Assets = Capital + Liabilities
   3. Assets = Capital - Liabilities + Drawings
   4. Capital = Assets + Drawings - Liabilities
2. What do you call the difference between the cost of an asset and the associated accumulated depreciation?
   1. Residual value
   2. Net book value
   3. Scrap value
   4. Market value
3. How do you account for a loss in the financial statements?
   1. Add the loss to liabilities
   2. Subtract the loss from liabilities
   3. Subtract from capital
   4. Add to current assets
4. Which of the following statements are correct?
   1. Financial Accounting is for external users while Management Accounting is for internal use.
   2. Both Financial Accounting and Management Accounting provide information which is useful for decision making
   3. Both Financial Accounting and Management Accounting have prescribed formats
   4. Financial Accounting is future oriented while Management Accounting is historical
   5. (i) and (ii)
   6. (ii) and (iii)
   7. (iii) and (iv)
   8. (i) and (iv)
5. Which of the following items is NOT presented separately in the Accounting Equation?
   1. Liabilities
   2. Assets
   3. Capital
   4. Profits
6. Which statement is used to show wealth of a business?
   1. Statement of profit or loss
   2. Statement of financial position
   3. Statement of cash flows
   4. Statement of changes in equity
7. What is the name of an entry which is recorded in both payables and receivables control accounts?
   1. Double entry
   2. Contra entry
   3. Original entry
   4. Single entry
8. Which of the following items will be classified as a current asset?
   1. Land
   2. Bank overdraft
   3. Furniture held for resale
   4. Office fittings
9. Which of the following statements are correct?
   1. A debit entry shows an increase in an asset account
   2. Profits are sales equal plus expenses
   3. Drawings reduce capital
   4. Bad debts are recorded as income in the statement of profit or loss
   5. (i) and (iii)
   6. (ii) and (iii)
   7. (iii) and (iv)
   8. (i) and (iv)
10. Which of the following statements shows the financial performance of a business?
    1. Balance sheet
    2. Statement of cash flows
    3. Statement of changes in equity
    4. Statement of profit or loss
11. Which of the following expenses have an immediate effect on the profit of a business?
    1. Interest on partners’ capital
    2. operating expenditure
    3. Development expenditure
    4. Capital expenditure
12. What do you call that part of a non-current asset which will be recovered through use?
    1. Net book value
    2. Residual value
    3. Depreciable amount
    4. Salvage value
13. Which of the following items is both a book of prime entry and also part of the double entry system?
    1. Sales day book
    2. Cash book
    3. Purchases day book
    4. Return inwards book
14. Which form of a business limits the liability of its owners to the capital that they might have contributed?
    1. Limited companies
    2. Partnerships
    3. Clubs
    4. Sole trader
15. J Company purchased a non-current asset for K18, 000,000 on 1 January 2014 which had a useful life of four years. The residual value of the asset was set at K2, 000,000 at that that date. The company depreciates its assets using the straight line method. Calculate the net book value of the asset as at 31 December 2016.
    1. K7,200,000
    2. K8,400,000
    3. K6,000,000
    4. K9,000,000
16. The cost of an asset at 1 January 2013 was K24, 000,000. The asset had a salvage value of K3, 000,000. The reducing balance method is used to depreciate the asset. The applicable rate is 30%. The asset was later sold for K12, 000,000 on 31 December 2015. Calculate the profit or loss on disposal.
    1. K3,768,000
    2. K4,800,000
    3. (K1,800,000)
    4. K12,000,000
17. A company had receivables of K80, 000,000 at 31 December 2016. It is the company’s policy to provide for an allowance for receivables at 4 % per annum. The company had provided for K4, 000,000 in 2015. Calculate the charge to be recorded in profit or loss in 2016.
    1. K4,000,000
    2. K7,200,000
    3. K3,360,000
    4. (K800,000)
18. Jane started a business on 1 January 2016 with a capital of K600, 000.At 31 December 2016, the business had assets of K2, 000,000 and liabilities of K700, 000. Jane withdrew K180, 000 during the year. Calculate the profit that the business had made in 2016.
    1. K520,000
    2. K1,720,000
    3. K888,000
    4. K300,000
19. A partnership has a profit before appropriation of K10, 500,000. The two partners, James and Frank get a salary of K500, 000 each. John has been charged K350, 000 as interest on drawings. Interest on capital is K1, 200,000 for both partners. James is entitled to get four fifth of the profit. Calculate Frank’s share of profit.
    1. K9,880,000
    2. K1,730,000
    3. K11,050,000
    4. K8,520,000
20. Matola purchased inventories on 1 January 2016 for K700, 000. The inventories had not yet been sold at 31 December 2016. The inventories could be sold for K750, 000 but the company would have to incur costs amounting to K60, 000. Calculate the value of the inventories as at 31 December 2016.
    1. K700,000
    2. K690,000
    3. K750,000
    4. K760,000

**SECTION B (60 MARKS)**

Answer **ANY THREE** questions from this section

**Question 2**

1. Explain **five** differences between Financial Accounting and Management Accounting.  *(10 marks)*
2. Mention **five** users of accounting information and explain why they need that information. *(10 marks)*

**(Total 20 marks)**

**QUESTION 3**

Xerox, Yolanda and Zione Partnership had a profit before appropriation of K90, 000,000 for the year ended 31 December 2016. The following information relates to the partnership:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Xerox | Yolanda | Zione |
| Salaries (K) | 405,000 | 650,000 | 400,000 |
| Drawings (K) | 1,200,000 | 2,000,000 | 1,800,000 |
| Capital balances (K) | 10,000,000 | 20,000,000 | 30,000,000 |
| Opening current account balances (K) | 40,000 | 72,000 | 57,000 |
| Profit sharing ratios | 1 | 2 | 3 |

Additional information:

1. Interest on capital is charged at 5% per annum
2. Interest on drawings is charged at 10% per annum
3. The opening current account balances are positive.

**Required:**

1. Prepare an appropriation account for the partnership for the year ended 31 December 2016. *(10 marks)*

1. Prepare current accounts as at 31 December 2016. *(10 marks)*

**(Total 20 marks)**

**QUESTION 4**

The following list of account balances has been drawn from the books of John Hawkers Giants as at 31 December 2016.

|  |  |
| --- | --- |
|  | K |
| Sales | 130,000,000 |
| Purchases | 89,000,000 |
| Return inwards | 400,000 |
| Return outwards | 600,000 |
| Carriage inwards | 740,000 |
| Carriage outwards | 310,000 |
| Insurance | 410,000 |
| Lighting | 719,000 |
| Telephone | 49,000 |
| Salaries | 2,900,000 |
| Discount allowed | 45,000 |
| Discount received | 55,000 |
| Irrecoverable debts | 10,000 |
| Land at cost | 40,000,000 |
| Buildings at cost | 4,000,000 |
| Accumulated depreciation - buildings | 800,000 |
| Motor vehicles at cost | 900,000 |
| Accumulated depreciation - motor vehicles | 400,000 |
| Motor vehicles expenses | 430,000 |
| General expenses | 770,000 |
| Inventories as at 1 January 2016 | 800,000 |
| Trade receivables | 1,400,000 |
| Trade payables | 1,900,000 |
| Bank overdraft | 2,000,000 |
| Cash on hand | 400,000 |
| Bank | 13,372,000 |
| Long term loan | 4,000,000 |
| Drawings | 3,100,000 |
| Capital | 20,000,000 |

The following information is relevant:

1. Inventories amounted to K1,100,000 at 31 December 2016
2. Depreciation for buildings is calculated at 10 % per annum on cost while that on motor vehicles has been set at 10 % per annum using the reducing balance method.
3. An allowance for irrecoverable debts has been set at 2%. There was no allowance at the beginning of the year.
4. Motor vehicle expenses and insurance had been accrued by K40, 000 and K10, 000 respectively.
5. Telephone expenses were prepaid by K11, 000.

**Required:**

1. Prepare the statement of profit or loss for John Hawkers Giants for the year ended 31 December 2016.  *(12 marks)*
2. Prepare the statement of financial position for John Hawkers Giants as at 31 December 2016. *(8 marks)*

**(Total 20 marks)**

**QUESTION 5**

1. Mention **six** reasons why cheques might not be honoured by banks. *(6 marks)*
2. Tahoma Business had a negative cash book balance of K202, 000 as at 31 December 2016. The balance on the bank statement on the same date was K211, 360 (debit). The following information has been provided:
   1. A deposit of K153, 080 did not appear on the bank statement.
   2. Cheque numbers 512 and 514 for K16, 100 and K13, 800 respectively had not yet been presented for payment.
   3. The following entries were made by the bank :
      * + - Credit bank charges K3,000 and Service fees K4,860
          - Interest on the bank overdraft K3,260
   4. A cheque for K5, 200 received from T. Gunda was referred to drawer by the bank.
   5. A payment amounting to K60, 000 made by B. Sosten was received by the bank but had not been recorded in the cash book.
   6. The bank statement showed a debit order for K13, 860 in favour of NICO for an insurance premium.
   7. J. Phiri deposited rental payments for K84, 000 directly into the bank account.

**Required:**

1. Prepare an adjusted cashbook. *(9 marks)*
2. Draw up a bank reconciliation statement as at 31 December 2016. *(5 marks)*

**(Total 20 marks)**

**QUESTION 6**

The following list of account balances has been drawn from the books of Tonde Business as at 31 December 2016.

|  |  |
| --- | --- |
|  | K |
| Credit sales | 9,000,000 |
| Credit purchases | 4,000,000 |
| Discount allowed | 30,000 |
| Discount received | 40,000 |
| Return inwards | 19,000 |
| Return outwards | 27,000 |
| Irrecoverable debts | 500,000 |
| Contra settlement | 1,100,000 |
| Dishonoured cheques | 100,000 |
| Receipts from customers | 5,999,000 |
| Payment to suppliers | 2,777,000 |

Additional information:

1. Trade receivables stood at K900,000 on 1 January 2016
2. The payables balance on 1 January 2016 was K400,000

**Required:**

Prepare receivables and payables control accounts. **(Total 20 marks)**

**END OF THE EXAMINATION PAPER**