

**INSTITUTE OF BANKERS IN MALAWI**

**CERTIFICATE IN BANKING EXAMINATION**

**SUBJECT: INTRODUCTION TO BUSINESS ACCOUNTING**

**(IOBM – C101)**

**Date: Wednesday,6th May 2015**

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

**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.**

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.

1. Which of the following items are not recorded in the income statement?
2. Depreciation, receivables, cost of sales and payables
3. Receivables, irrecoverable debts, depreciation and payables
4. Capital, receivables, payables and cash at bank
5. Receivables, depreciation, capital and payables
6. An increase in an asset account is represented by:
7. A credit entry in the account
8. An entry on the left side of the account
9. An entry in the asset’s T-account
10. A debit entry in the account
11. The drawings made by the owners of the business:
12. Reduce the net profit
13. Increase the net profit
14. Increase the net loss
15. Reduce capital
16. A bank overdraft is recorded as:
17. An asset in the statement of financial position.
18. Other income in the income statement.
19. Drawings in the statement of financial position.
20. A liability in the statement of financial position.
21. John started business on 1 January 2014. During the year the business made a profit of K700, 000. John withdrew K90, 000 from the business for personal use. On 31 December 2014, capital was K1, 900, 000. Calculate the starting capital of the business.
22. K1,110,000
23. K1,290,000
24. K2,510,000
25. K2,690,000

**For question 6 and 7**

Grace, Getrude and Georgina are in partnership and they share profits and losses in the ratios 3:2:1 respectively. Net profit for the year was K1,200,000. Grace and Getrude are paid salaries of K90,000 and K100,000 respectively. Total interest charged on capital is K210,000. Total interest charged on drawings is K100,000.

1. Calculate the profit to be shared among the partners.
2. K700,000
3. K900,000
4. K800,000
5. K1,000,000
6. Calculate Gertrude’s share of profit.
7. K300,000
8. K150,000
9. K333,300
10. K233,300
11. Which of the following statements are correct?
12. The statement of financial position shows the financial position of a business.
13. The statement of financial position uses the concept of the accounting equation.
14. The statement of financial position shows assets and liabilities only.
15. Opening inventories are recorded in the statement of financial position.
16. (i) and (ii)
17. (i) and (iv)
18. (ii) and (iii)
19. (ii) and (iv)

**For question 9 and 10**

The following information relates to Usova business. At the beginning of the year, rentals account had a debit balance of K60, 000 while the utilities account had a credit balance of K19, 000. During the year, the business had paid K90, 000 and K33, 000 for rentals and utilities respectively. At the end of the year, there was a debit balance of K40, 000 in the rentals account. The utilities account had a credit balance of K17, 000.

1. Calculate the rentals charge for the year.
2. K110,000
3. K190,000
4. K70,000
5. K100,000
6. Calculate the utility which was recorded in the income statement for utilities.
7. K52,000
8. K59,000
9. K31,000
10. K35,000

**For question 11**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Scenario** | **Buildings** | **M/Vehicle** | **Inventory** | **Bank** | **Capital** | **Liabilities** |
| 1 |  |  |  | 100,000 | 100,000 |  |
| 2 | 20,000 | 50,000 | 40,000 | 40,000 | 100,000 | 50,000 |
| 3 | 20,000 | 50,000 | 10,000 | 60,000 | 90,000 | 50,000 |

1. Scenario 2 indicates that:
2. The business sold buildings for K20,000, bought a motor vehicle for cash of K50,000 and acquired inventories on credit for K40,000
3. The business sold inventories for K40, 000, bought buildings for K20,000 and motor vehicles for K50,000. It also incurred a liability of K50,000
4. The business bought buildings for K20, 000, motor vehicles for K50,000,inventories for K40, 000, bank balance has gone down by K60,000 and the business incurred a liability of K50,000
5. Nothing happened
6. Cost of goods sold is calculated as follows:

Opening inventories + purchases + returns outwards – carriage inwards + closing inventories.

Closing inventories + purchases+ purchases returns +carriage inwards – opening inventories

Closing inventories + purchases + returns outwards – carriage inwards + opening inventories.

Opening inventories+ purchase - purchases returns + carriage inwards-closing inventories

1. Providing for irrecoverable debts and an allowance for receivables is an application of :
2. Going concern concept.
3. Matching concept.
4. Prudence Concept.
5. Substance over form.
6. A business bought a non-current asset five years ago for K5, 000, 000. Accumulated depreciation is K4, 000, 000. The business has now sold the asset for K4, 900, 000. Calculate the profit or loss on disposal.
7. A profit of K100,000
8. A loss of K900, 000
9. A loss of K100, 000
10. A profit of K900, 000

15. Which of the following statements are not correct?

1. Discount received is shown under the credit column in the cash book
2. Sales are shown in the debit column of the trial balance
3. Drawings are shown under the credit column in the trial balance
4. Receivables are shown in the credit column of the trial balance.
5. (i), (ii) and (iii)
6. (ii), (iii) and (iv)
7. (i), (iii) and (iv)
8. (i), (ii) and (iv)
9. A business had an opening allowance for receivables of K250, 000. At the end of the year, the allowance was set at K390, 000. Calculate the amount which should be recorded in the income statement.
10. An expense of K140,000
11. Income of K130,000
12. Income of K140,000
13. Income of K170,000

**For questions 17 and 18**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Description** | **Inventory acquired (units)** | **Inventory issued (units)** | **Balance (units)** |
| 1January 2015 | Opening inventory at K200 each |  |  | 150 |
| 3 January 2015 | Purchases at K250 each | 500 |  | 650 |
| 5 January 2015 | Issues |  | 350 | 300 |
| 30 January 2015 | Issues |  | 200 | 100 |

1. Calculate the value of closing inventory using First-In-First Out (FIFO) method.
2. K20,000.00
3. K25,000.00
4. K22,500.00
5. K23,846.20
6. Calculate the value of closing inventory using the weighted average cost method.
7. K20,000.00
8. K25,000.00
9. K22,500.00
10. K23,846.20

**For question 19 and 20**

The receivables control account had been prepared for a business.

|  |  |  |  |
| --- | --- | --- | --- |
| Description | Amount (MK’000) | Description | Amount (MK’000) |
| Sales | 300 | Balance b/d | 100 |
| Discount allowed | 40 | Receipts from customers | 190 |
| Contra settlement | 70 | Balance c/d | 120 |

1. Which entries have been misplaced?
2. Sales, discount allowed and receipts from customers
3. Sales, contra settlement and opening balance
4. Opening balance, discount allowed and contra settlement
5. Opening balance, sales and receipts from customers
6. Calculate the collect balance of receivables control account.
7. K410,000
8. K480,000
9. K180,000
10. K100,000

**SECTION B (60 MARKS)**

Answer **ANY THREE** questions from this section

**QUESTION 2**

The trial balance of John’s business as at 31 December 2014 is as follows:

|  |  |  |
| --- | --- | --- |
|  | K’000 | K’000 |
| Capital |  | 1,122 |
| Inventory – 1 January 2014 | 368 |  |
| Sales |  | 2,650 |
| Returns inwards | 68 |  |
| Purchases | 1,240 |  |
| Carriage inwards | 12 |  |
| Salaries and wages | 560 |  |
| Motor expenses | 58 |  |
| General expenses | 306 |  |
| Loan interest | 8 |  |
| Irrecoverable debts | 20 |  |
| Discounts | 28 | 22 |
| Plant and machinery at cost | 480 |  |
| Provision for depreciation : Plant and machinery (note i) |  | 144 |
| Motor vehicles at cost (note i) | 240 |  |
| Provision for depreciation : Motor vehicles (note i) |  | 96 |
| Land | 448 |  |
| Trade receivables | 376 |  |
| Trade payables |  | 90 |
| Bank overdraft |  | 28 |
| Long term loan |  | 60 |
|  | 4,212 | 4,212 |

The following information is relevant for the preparation of the financial statements:

1. It is the business’s policy to depreciate motor vehicles at 20 percent on cost and plant and machinery at 15 percent on cost.
2. Inventory of finished goods on 31 December 2014 was K326, 000.
3. Salaries and wages have been accrued by K49, 000 while general expenses have been prepaid by K96, 000.
4. An allowance for receivables should be set at 10% of receivables.

**Required:**

1. Prepare the income statement for the business for the year ended 31 December 2014. *(12 marks)*
2. Draw up a statement of financial position for the business as at 31 December 2014 *(8 marks)*

**(Total 20 marks)**

**QUESTION 3**

Thawapo, Enanu and Fotokoza are operating a business as a partnership called TEF. They share profits in the ratios 2:2:1. The figures below were drawn from the books of the partnership as at 31 December 2014:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Thawapo | Enanu | Fotokoza |
|  | K’000 | K’000 | K’000 |
| Capital | 400 | 400 | 200 |
| Current accounts (credit) | 80 | 20 | 22 |
| Drawings | 40 | 30 | 20 |
| Partnership salary | 50 | 40 |  |

The following information is should be considered:

1. Net profit for the year was K310,000.
2. The partnership agreement indicates that the partners should get 10 percent per annum on their capital balances and that drawings should attract an interest of 5 percent.
3. It is the policy of the partnership to maintain separate capital accounts and current accounts.

**Required:**

1. Mention **five** reasons why partnerships may be formed. *(5 marks)*
2. Prepare an appropriation account for TEF Partnership for the year ended 31 December 2014. *(9 marks)*

1. Draw up current accounts as at 31 December 2014. *(6 marks)*

**(Total 20 marks)**

**QUESTION 4**

The cashbook balance of a business had a balance of K101, 000 on 1 December 2014. During the month the business had the following transactions:

1. J. Phiri paid the K14,000 by cheque
2. The business paid ESCOM K29,000 on cheque number 003
3. The business paid city rates of K17, 000 to Blantyre City Council on cheque number 004.
4. The business issued cheque number 005 for 40,000 in relation to payment of pension to NICO.

The business’ bank statement as at 31 December 2014 had the following details:

|  |  |  |  |
| --- | --- | --- | --- |
| Details | Debit | Credit | Balance |
| Opening Balance |  |  | 101,000(Credit) |
| Standing order | 12,000 |  | 89,000(Credit) |
| Dishonoured cheque: No 002 | 19,000 |  | 70,000(Credit) |
| Bank charges | 2,500 |  | 67,500(Credit) |
| Interest |  | 3,000 | 70,500(Credit) |
| Blantyre City Council chq: No 004 | 17,000 |  | 53,500(Credit) |
| Bank transfer |  | 29,000 | 82,500(Credit) |

**Required:**

1. Prepare the cash book of the business for the month of December 2014.

*(6 marks)*

1. Update the cash book using the information on the bank statement

*(6 marks)*

1. Prepare a bank reconciliation statement as at 31 December 2014

*(8 marks)*

**(Total 20 marks)**

**QUESTION 5**

A trial balance for Zonde Business failed to agree as the debit side was greater than the credit side by K883, 000. The net profit for the year of the business was K990, 000. You have been approached by the owners to correct the anomaly and you have established the following:

1. Payment for motor vehicle expenses of K100, 000 has been credited in the motor van account.
2. Receipt from Tadala of K75, 000 had been credited in Tadala’s account.
3. Payment of K17, 000 for electricity has only been recorded in the cash book.
4. Wages of K760,000 have been entered in the cash book as K670,000
5. Payment made by Zala to the business has not been recorded in the books of the business.

**Required:**

1. Prepare journal entries to correct the above errors. Narratives are not required.

*(10 marks)*

1. Prepare a suspense account, taking into account of the entries in (a) above.

*(5 marks)*

1. Calculate the adjusted profit for the business. *(5 marks)*

**(Total 20 marks)**

**QUESTION 6**

At the beginning of the year, a business had trade receivables and trade payables of K510, 000 and K473, 000 respectively. During the year, the following transactions took place:

|  |  |  |
| --- | --- | --- |
|  | Details | K’000 |
| 1 | Credit sales | 4,100 |
| 2 | Cash sales | 200 |
| 3 | Credit purchases | 2,900 |
| 4 | Cash purchases | 170 |
| 5 | Receipts from customers | 2,700 |
| 6 | Payments to suppliers | 1,900 |
| 7 | Irrecoverable debts | 54 |
| 8 | Discount allowed | 89 |
| 9 | Discount received | 91 |
| 10 | Contra settlement | 101 |
| 11 | Dishonoured cheque | 77 |
| 12 | Sales returns | 41 |
| 13 | Purchases returns | 27 |

**Required:**

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

**END OF THE EXAMINATION PAPER**