

**INSTITUTE OF BANKERS IN MALAWI**

**CERTIFICATE IN BANKING EXAMINATION**

**SUBJECT: INTRODUCTION TO BUSINESS ACCOUNTING**

**(IOBM-C101)**

**Date: Wednesday, 1st May 2013**

**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. Answer books without examination numbers will not be marked.**

7DO NOTopen this question paper until instructed to do so.

**SECTION A (40 MARKS)**

Answer **ALL** questions from this section

1. Which book has dual function i.e. a book of original entry and also for double entry?
2. Sales Day Book
3. Purchases Day Book
4. Cash Book
5. Return Inwards Day Book.
6. The following expenditures were recorded for the year ending 31 December 2012:

i)Purchase of second hand delivery van

ii)Petrol costs for the delivery van

ii) Painting outside of a new building

iv)Replacing engine of the delivery van

v)Repairs to the delivery van

The above transactions will be classified as follows:

1. i , ii and iii are revenue expenditure items
2. iii and iv are not capital expenditure items
3. ii, iii, and iv are capital expenditure items
4. i and v are not revenue expenditure items
5. Which of the following does not form part of the regulatory framework for companies:
6. Accounting rules
7. The Bible
8. Listing rules
9. Corporate governance
10. John sold a non-current asset at a profit of K12,000. The cost of the asset was K50,000 and accumulated depreciation was K20,000. The disposal proceeds amounted to :
11. 42,000
12. 50,000
13. 30,000
14. 60,000
15. John, James and Jane decided to form a partnership in order to consolidate their diversified skills. They share profits and losses in the ratios of 3:3:2 respectively. For the year, ending 31 December 2012 their capital accounts remained fixed at the following amounts:
16. John : K250,000
17. James : K200,000
18. Jane : K150,000

The terms of the partnership stipulate that each partner should get 5 percent interest per annum on their capital accounts. In addition to the above, partnership salaries of K160,000 for James and K70,000 for Jane are to be charged. The net profit of the partnership before taking any of the above into account was KK424,000.

Profit to be shared among the partners is :

1. K234,000
2. K164,000
3. K146,000
4. 194,000
5. Which of the following statement is correct:
6. Carriage inwards are treated as expenses in the income statement
7. Carriage inwards increase sales
8. Carriage inwards are added to purchases
9. Carriage inwards are subtracted from cost of sales
10. The cost of inventory is K17,000 while costs to sale of the inventories is K2,000 and the selling price is K15,000. What is the value of the inventories?
11. K17,000
12. K2,000
13. K13,000
14. K15,000
15. In a trial balance, if the totals on the debit side exceed the totals on the credit side by K200,000, a suspense account that will be set up will :
16. Have a debit balance of K200,000
17. Have a nil balance
18. Have a credit balance of K200,000
19. Be closed immediately
20. Which of the following statement does not relate to internal controls over purchases and trade payables:
21. Order forms should be pre-numbered and kept in safe custody.
22. Order procedures should include requirements for obtaining tenders, estimates or competitive bids.
23. Customer claims should be recorded and investigated
24. All goods and services procured should be controlled by budgetary techniques.
25. Depreciation is :
26. Setting funds aside for replacement of existing assets at the end of its life
27. Systematic allocation of the depreciable amount of an asset over its life.
28. Showing the real value of an asset in the statement of financial position
29. Showing the decrease in the value of an item of property, plant and equipment.
30. An increase in the allowance for receivables is treated as :
31. An asset in the statement of financial position
32. Income in the income statement
33. A liability in the statement of financial position
34. An expense in the income statement
35. When we have an accrued expense, we should :
36. Debit a liability account and credit an expense account
37. Debit an asset account and credit an expense account
38. Debit an expense account and credit a liability account
39. Debit the expense account and credit an asset account
40. Which of the following statements are correct:
41. Assets are equal to capital plus liabilities
42. Capital is equal to assets minus liabilities
43. Liabilities are equal to assets minus capital
44. The statement of financial position is an application of the accounting equation
45. None of the above
46. i, ii and iii
47. ii, iii and iv
48. i ,ii, iii and iv
49. Net profit is calculated as follows:
50. Gross profit minus expenses
51. Sales minus cost of sales
52. Sales plus gross profit minus expenses
53. Sales minus gross profit
54. The income statement is prepared using:
55. The cash basis
56. The depreciation method
57. The accruals basis
58. The prepayment basis
59. A payment of cash of K16,000 to M. Domasi was entered on the receipts side of the cash book in error and credited to M. Domasi’s account. The error will be corrected by:
60. Debiting cash book by K16,000 and crediting M. Domasi account by K16,000
61. Debiting M. Domasi account by K32,000 and crediting cash book by K32,000
62. Debiting M. Domasi account by K16,000 and crediting cash book by K16,000
63. Debiting cash book by K32,000 and crediting M. Domasi account by K32,000
64. Drawings by the owner of a business :
65. Are recorded as an expense in the income statement
66. Are treated as assets in the statement of financial position
67. Reduce capital
68. Increase capital
69. A credit balance in an account indicates that :
70. Totals on the debit side are greater than totals on the credit side
71. Totals on the credit side are greater than totals on the debit side
72. Totals on both sides are equal
73. In the following period, the opening balance will be recorded on the debit side
74. Control accounts are sometimes known as :
75. Total accounts
76. Purchases ledger control accounts
77. Sales ledger control accounts
78. Books of original entry
79. In the financial statements, joint expenditure should :
80. Be treated as asset in the statement of financial position
81. Be split between revenue and capital expenditure components
82. Be added to sales
83. Be treated as a liability

**SECTION B (60 MARKS)**

Answer ANY **THREE** questions from this section

**QUESTION 2**

1. Janus operates its petty cash account on the imprest system. It has a float of K60,000. The cash that is spent during the month is reimbursed at the beginning of the following month. The following transactions were recorded for the month of January 2013.

|  |  |  |
| --- | --- | --- |
| January | Details | Amount (K) |
| 1 | Office cleaning | 1,800 |
| 2 | Stationery | 4,100 |
| 2 | Motor repairs | 6,700 |
| 4 | Cleaning materials for the office | 400 |
| 5 | Stationery | 1,100 |
| 7 | Petrol | 2,200 |
| 10 | Office cleaning | 1,600 |
| 12 | Petrol | 800 |
| 13 | Stationery | 2,200 |
| 14 | Motor license | 9,700 |
| 16 | Office cleaning | 1,900 |
| 17 | Stationery | 1,400 |
| 20 | Petrol | 2,700 |
| 21 | Office cleaning | 800 |
| 22 | Photocopying paper | 2,000 |
| 23 | Motor repairs | 8,300 |
| 25 | Petrol | 2,400 |
| 30 | Cleaning materials | 2,100 |

**Required:**

Draw up the company’s analysed petty cash book for the month of January 2013 showing clearly the amount to be reimbursed on 1 February 2013.

**(Total 20 marks)**

**QUESTION 3**

1. Mention **five** differences between financial and management accounting *(5 marks)*
2. Explain the importance of the following concepts in accounting :
   1. Business entity
   2. Going concern
   3. Prudence
   4. Consistency
   5. Materiality *(10 marks)*
3. Mention the **five** elements that make up the regulatory framework for companies. *(5 marks)*

**(Total 20 marks)**

**QUESTION 4**

The following trial balance was extracted from the books of J. Zeni at the close of business on 31 March 2013.

|  |  |  |
| --- | --- | --- |
|  | Dr | Cr |
|  | K | K |
| Purchases |  | 928,000 |
| Sales | 1,571,650 |  |
| Cash at bank | 41,000 |  |
| Cash in hand |  | 3,240 |
| Capital account 1 April 2012 | 114,000 |  |
| Drawings |  | 171,000 |
| Office furniture | 29,000 |  |
| Rent | 34,000 |  |
| Wages and salaries |  | 314,000 |
| Discounts Allowed | 8,200 |  |
| Discount Received |  | 1,600 |
| Accounts receivable |  | 123,160 |
| Accounts payable | 52,450 |  |
| Inventory 1st April 2012 |  | 41,200 |
| Allowance for doubtful debts (1 April 2012) |  | 4,050 |
| Motor vehicle |  | 37,500 |
| Motor vehicle running costs | 6,150 |  |
| Irrecoverable debts | 7,300 |  |
| **Totals** | **1,863,750** | **1,623,750** |

The following information is also available:

1. Inventory at 31 March 2013 K24,000
2. Wages and salaries accrued at 31 March 2013 K3,400
3. Rent prepaid during the year K2,300
4. Motor vehicle running costs owing K720
5. Increase the allowance for receivables by K910
6. Depreciation should be charged as follows : Office furniture K3,800, Motor vehicle K12,500

**Required:**

1. Mention the transactions that are making the trial balance not to balance

*(5 marks)*

1. Prepare the income statement for the year ended 31 March 2013 *(8 marks)*
2. Prepare the statement of financial position as at 31 March 2013. *(7 marks)*

**(Total 20 marks)**

**QUESTION 5**

1. Mention **three** reasons why receivables may be irrecoverable. *(3 marks)*

1. On 1 January 2010 there was a balance in the Allowance for Irrecoverable debt Account of K5,000 and it was decided that the allowance should be maintained at 5 percent of trade receivables at each year end. The trade receivables balances on 31 December for the year 2010, 2011 and 2012 were as follows :

|  |  |  |
| --- | --- | --- |
|  | Period | K |
| 1 | 2010 | 120,000 |
| 2 | 2011 | 80,000 |
| 3 | 2012 | 90,000 |

**Required:**

1. Prepare the Allowance for Irrecoverable debt Accounts for the three years ended 31 December 2010 to 31 December 2012. *(5 marks)*

1. Prepare Income Statements extracts for the three years ended 31 December 2010 to 31 December 2012. *(3 marks)*
2. A system of accounting and record keeping will not succeed in completely and accurately processing all transactions unless internal controls are built into the system.

1. Mention **three** internal controls that should be in place for each of the following :

Cash sales and collections *(3 marks)*  Cheque payments *(3 marks)* Cash deposits *(3 marks)*

**(Total 20 marks)**

**QUESTION 6**

The bank statement obtained from Tonse Business showed a credit balance of K81,000 while the cash book had a debit balance of K24,000 for the month of January 2013.

**Bank Statement for the month of January 2013**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Details | Dr | Cr | Balance |
| I Jan | Balance b/d |  |  | 64,000 (Cr) |
| 2 | Deposit |  | 48,000 | 112,000 (Cr) |
| 3 | Cheque no 001 | 68,000 |  | 44,000(Cr) |
| 6 | Cheque no 002 | 16,000 |  | 28,000(Cr) |
| 12 | Deposit |  | 60,000 | 88,000(Cr) |
| 15 | Direct debit | 29,000 |  | 59,000(Cr) |
| 18 | Interest |  | 9,000 | 68,000(Cr) |
| 20 | Cheque no 003 | 40,000 |  | 28,000(Cr) |
| 21 | Direct credit |  | 50,000 | 78,000(Cr) |
| 24 | Cheque no 006 | 30,000 |  | 48,000(Cr) |
| 25 | Bank charges | 14,000 |  | 34,000(Cr) |
| 27 | Deposit |  | 80,000 | 114,000(Cr) |
| 29 | Dividend |  | 20,000 | 134,000 (Cr) |
| 30 | Cheque no 008 | 53,000 |  | 81,000 (Cr) |

**Cash Book for the month of January 2013**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Details | Amount (K) -Dr | Date | Details | Amount (K) -Cr |
| 1 Jan | Balance b/d | 64,000 | 3 Jan | Payment –chq 001 | 68,000 |
| 2 | Cash sales | 48,000 | 6 | Electricity –chq no 002 | 16,000 |
| 12 | Customers | 60,000 | 20 | Suppliers –chq no 003 | 40,000 |
| 27 | Cash sales | 80,000 | 21 | Purchases –chq no 004 | 28,000 |
| 31 | Customers | 81,000 | 24 | Phone units – chq no 005 | 14,000 |
|  |  |  | 24 | Supplies –chq no 006 | 30,000 |
|  |  |  | 26 | Rentals –chq no 007 | 20,000 |
|  |  |  | 29 | Suppliers – chq no 008 | 53,000 |
|  |  |  | 31 | Salaries – chq no 009 | 40,000 |
|  |  |  | 31 | Balance c/d | 24,000 |
|  |  | 333,000 |  |  | 333,000 |

**Required:**

1. Mention **two** advantages of preparing a bank reconciliation statement.

*(4 marks)*

1. Explain why it is necessary to update the cash book before preparing a bank reconciliation statement.  *(2 marks)*

1. Prepare an updated cash book for the month ending 31 January 2013.

*(8 marks)*

1. Prepare bank reconciliation as at 31 January 2013 starting with the balance as per cash book. *(6 marks)*

**(Total 20 marks)**

**END OF EXAMINATION PAPER**