

**INSTITUTE OF BANKERS IN MALAWI**

**CERTIFICATE IN BANKING EXAMINATION**

**SUBJECT: INTRODUCTION TO BUSINESS ACCOUNTING**

**(IOBM – C101)**

**Date:** **Monday,** **13th May 2019**

**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 by circling the right answers in the answer sheet provided.

1. When a non- current assert is purchased for a cash what is the journal entry?
2. Dr Assert Cr Bank
3. Dr Bank Cr Assert
4. Dr Purchases Cr Bank
5. Dr Bank Cr Purchases
6. What is the main aim of financial reporting?
7. To record every financial transaction individually.
8. To maintain ledger accounts for every transaction
9. To prepare a trial balance.
10. To provide financial information to users of such information.
11. Which of the following is not a qualitative characteristics of financial statements?
12. Relevance
13. Profitability
14. Comparability
15. Completeness
16. The accounting equation at the start of the month was Assert K9, 800, 000 less liabilities K 4, 375,000. During the month the following transactions took place: The business purchased a non-current Assert of K 2, 100,000 was made and payable of K 1, 925, 000 were paid by cheque. Calculate the capital at the end of the month?
17. K 3, 850, 000
18. K 8, 050, 000
19. K 7, 875, 000
20. K 5, 775, 000
21. Which one of the following statements is correct?
22. Assets and Liabilities normally have credit balances.
23. Liabilities and revenues normally have debit balances
24. Asserts and revenues normally have credit balances
25. Asserts and expenses normally have debit balances
26. In a financial year, a business earned K290, 000,000 worth of profit. A further injection of K32, 000,000 was made during the year and inventories worth K 8,800,000 were used for private purposes by the entrepreneur. The net Asserts at the beginning of the year were K 406, 800, 000. Calculate the closing net asserts.
27. K 350,000,000
28. K 357,200,000
29. K 633, 600,000
30. K 720, 000,000
31. What type of error is committed where a transaction is credited to the correct purchases ledger account, but debited incorrectly to the repairs and renewals account instead of to plant and machinery account?
32. Error of omission
33. Error of Commission
34. Error of principal
35. Error of origin entry
36. A business buys a machine for K120, 000,000 on 1 January 2018 and another one on 1 July 2018 for K 144, 000, 000. Depreciation is charged at 10% per annum on cost and calculate on a monthly basis. Calculate the total depreciation charge for the two machines for the year ended 31 December 2018.
37. K 132 00000
38. K 19200000
39. K 21600000
40. K 26400000
41. Which one of the following is a book of prime entry system?
42. The petty cash book
43. The journal
44. The sales day book
45. The purchase ledger
46. Sales revenue should be recognized only when goods and services have been supplied. What is the name of the accounting convention that governs this statement?
47. Realization convention
48. Materiality convention
49. Accruals convention
50. Dual aspect convention
51. What is an audit trail in a computerized accounting system?
52. A list of all the items checked by the auditor
53. A list of all the nominal ledger codes
54. A list of all the transactions in a period
55. A list of all the transactions in a ledger account in a period.
56. What is the fundamental objective of an external audit of a limited company?
57. To give advice to shareholders
58. To detect fraud and errors
59. To measure the performance and financial position of a company
60. To provide an opinion on the financial statement
61. Which of the following items should be classified as capital expenditure?
62. Repairs to motor vans
63. Extension of premises
64. Depreciation of machinery
65. Purchase of motor vans for resale
66. The following information is available about a company’s receivables.

|  |  |  |
| --- | --- | --- |
|  |  | **MK** |
| Balance b/f at 1st January 2018 |  | 166,200 |
| Allowance for Receivables at 1st January 2018 | | 13,320 |
| Increase in Provision during 2018 |  | 1,440 |
| Discount Allowed in the Year |  | 47,280 |
| Sales in The Year |  | 1,460,760 |
| Contra Purchase Ledger in the Year |  | 106,800 |
| Receipts from Costumers in the Year |  | 1,370,400 |

Calculate the balance carried forward at 31 December 2018 on the sales ledger control account.

1. K 101, 040
2. K 89, 160
3. K 102, 480
4. K 87, 720
5. Which of the following errors would not cause there to be a difference in the trial balance?
6. In complete double entry
7. Addition error
8. Transaction not recorded at all
9. Transposition error in the debit entry
10. Alan’s business made purchase of K 54, 000,000 during the month of January. His gross inventories were k 6, 000, 000 on 1 January and K 12, 000,000 on 31 January. His gross profit margin is 25% of sales. Calculate his sales for the month?
11. K 64, 000, 000
12. K 60, 000,000
13. K 75, 000,000
14. K 80, 000, 000
15. Claim limited paid K 20, 400,000 cash for electricity during the year ended 31 December 2018. At 1 January 2018 the company owed K 15, 000,000 and at 31 December 2018 it owed K 17, 400, 000. What charge for electricity should appear in the company’s statement of profit or loss for the year ended 31 December 2018?
16. K 17, 400,000
17. K 18, 000, 000
18. K 20, 400, 000
19. K 22, 800,000
20. A firm uses the first in first out (FIFO) cost formula. Information regarding inventories movements during a particular month are as follows:

1 March 2018 opening balance 300 units at K 10 each

10 March purchases 700 units at k 20 each

21 March sales 400 units at K 15 each

23 March Sales 800 units at K 22 each

Calculate the cost of inventories at the end of the month.

1. K 5280
2. K 4200
3. 6000
4. K 3000
5. Which of the following statements is not correct?
6. Internal auditors may review value for money
7. Internal auditors should not liaise with external auditors
8. Internal audit is part of internal control
9. Internal audit should be independent of the activities it audits.
10. Chifundo returned some goods to the supplier because they were faulty. The origin purchase price of these goods was K 24780. The ledger clerk treated the return correctly on both the payables ledger control account and the individual payables account, but debited the purchase returns account with K 25860. What is the correcting entry which needs to be made?
11. Dr suspense account K 1080

Cr purchase returns K 1080

1. Dr purchase returns K 1, 080

Cr suspense account K1, 080

1. Dr suspense account K50, 640

Cr purchase returns K50, 640

1. Dr purchase returns K 50, 640

Cr suspense account K 50, 640

**SECTION B (40 MARKS)**

Answer **ANY THREE** questions from this section

**QUESTION 2**

Fletcher is a sole proprietor trading as A1 Alarms. The trial balance of A1 Alarm at 31 August 2018 is set out below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Dr** |  | **Cr** |
|  |  | **MK** |  | **MK** |
| Advertising |  | 8,000 |  |  |
| Bank |  | 2,000 |  |  |
| Bank Loan |  |  |  | 20,000 |
| Bank Interest |  | 2,000 |  |  |
| Capital |  |  |  | 200,000 |
| Capital Introduced |  |  |  | 5,000 |
| Carriage Outwards |  | 12,000 |  |  |
| Computing Expenses |  | 10,000 |  |  |
| Payables |  |  |  | 20,000 |
| Receivables |  | 30,000 |  |  |
| Discount Received |  |  |  | 3,000 |
| Drawings |  | 33,000 |  |  |
| Fixtures at Cost |  | 60,000 |  |  |
| Power |  | 4,000 |  |  |
| Accumulated Depreciation on Fixtures |  |  |  | 15,000 |
| Allowances for Receivables |  |  |  | 2,000 |
| Purchases |  | 240,000 |  |  |
| Rent |  | 6,000 |  |  |
| Salaries |  | 36,000 |  |  |
| Sales |  |  |  | 382,000 |
| Inventory at 1 September 2018 |  | 24,000 |  |  |
|  |  | **467,000** |  | **647,000** |
|  |  |  |  |  |

The following addition information was provided:

1. The inventories at 31 august 2018 were value at K20000.
2. The prepayment for rent at 31 august 2018 was K2000
3. The accrual; for power was K1000.
4. The computer crashed in august 2018 an engineer gave an estimate of K500 to repair the computer, which fletcher accepted. The engineer repaired the computer in august 2018 but has not yet submitted his invoice.
5. Depreciation is to be provided for the year ended 31st August 2018 on fixtures on the reducing balance basis at 33 ⅓% per annum.
6. The allowance for receivables is to be 5% of receivables.

**Required**

1. Prepare a statement of Profit or Loss and Other Comprehensive Income for the Year ended 31st August 2018**.**

*(10 marks)*

1. Prepare the statement of financial position as at 31 august 2018

*(10 marks)*

**(Total 20 marks)**

**QUESTION 3**

1. Prepare ledger accounts (T Account) for the transactions below. The transactions are for Sport Stars Limited.

**2017**

September 1 bought goods on credit K 68,000 from D Under wood.

September 2 bought goods on credit K 154,000 from M Hughes

September 5 sold goods on credit to a Border for K 60,000.

September 6 sold goods credit to A Steward for K 50,000.

September 10 returned goods K 14,000 to D under wood.

September 12 goods bought for cash K 10,000.

September 19 a steward returned goods K 16,000 to us.

September 21 goods sold for cash K 15,000.

September 22 paid cash to D under wood K 54,000.

September 30 a border paid the amount owing to him K 60,000 in cash.

September 30 bought goods on credit K 128,000 from M Hughes.

*(11 Marks)*

1. State **three** example of errors that do not affect the trial balance from agreeing and explain what each error means. *(6 marks)*
2. You are provided with the following information:

|  |  |  |
| --- | --- | --- |
|  |  | MK |
| Opening Payables |  | 71,300 |
| Cash Paid |  | 271,150 |
| Discount Received |  | 6,600 |
| Goods Returned |  | 13,750 |
| Closing Payables |  | 68,900 |

*(3 marks)*

**(Total 20 marks)**

**QUESTION 4**

1. The following information was extracted from the books of Talandira Enterprise as at 31 march 2018:

**MK**

Inventory on 1 April 2017 14,000

Purchases 96,000

Mark – up for the enterprise is 40% on cost of goods sold. Average inventory during the year was K 17,000.

**Required**

1. Distinguish mark – up and margin. *(2 marks)*

ii) Calculate the value of the closing inventory at 31 march 2018. *(2 marks)*

iii) Draw up a trading account showing Talandira is gross profit for the period.

*(5 marks)*

1. The following balances were extracted from the books of M Chenga Ltd at 31 December 2018:

|  |  |  |
| --- | --- | --- |
|  |  | **MK** |
| Receivables Ledger Control |  | 63,150 |
| Payables Ledger Control |  | 32,000 |
| Allowances for Receivables |  | 3,158 |

The following are balances for transactions which took place during the year:

|  |  |  |
| --- | --- | --- |
|  |  | **MK** |
| Sales on Credit |  | 550,000 |
| Purchases on Credit |  | 276,000 |
| Sales Returns |  | 6,000 |
| Purchases Returns |  | 4,000 |
| Cash Received (Excluding Bad Debts Recovered) | | 514,268 |
| Cash paid to Suppliers |  | 258,100 |
| Discount Allowed to Customers |  | 12,790 |
| Discount Received from Suppliers |  | 5,900 |
| Bad Debts Written Off |  | 4,100 |
| Receivables and Payables Accounts Settled by Setting Off | | 4,000 |

**Addition information**:

1. The company passes transactions for bad debts written off and recovered through the allowance for receivables accounts.
2. Allowance for receivables at year end is to be 5% of receivables.

**Required:**

Prepare the following:

1. Receivables control account (4 marks)
2. Payables ledge control account *(4 marks)*
3. Allowance for receivable accounts (*2 marks)*

**(Total 20 marks)**

**QUESTION 5**

1. Mention **three** reasons why receivables may be irrecoverable. *(3 marks)*
2. On 1 January 2015 there was balance in the allowance for irrecoverable debt account of K 5,000 and it was decided that the allowance should be maintained at 5% of trade receivables at each year end. The trade receivables balance on 31 December for the years 2015, 2016 and 2017 were as follows:

|  |  |  |
| --- | --- | --- |
|  | **Period** | **K** |
| 1 | 2015 | 120,000 |
| 2 | 2016 | 80,000 |
| 3 | 2017 | 90,000 |

**Required:**

1. Prepare the allowance for irrecoverable debt accounts for the three years ended 31 December 2015 to 31 December 2017. *(5 marks)*
2. Prepare income statements extracts for the three years ended 31 December

2015 to 31 December 2017. *(3 marks)*

1. 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. Mention **three** internal controls that should be in place for each of the following:
2. Cash sales and collections *(3 marks)*
3. Cheque payments *(3 marks)*
4. Cash deposits *(3 marks)*

**(Total 20 marks)**

**QUESTION 6**

1. Black, Brown and Cook are partners. They share profits and losses in the ratios of 2:3:4. For the year ending 31 July 2018, their capital accounts remained fixed at the following amounts:

**K**

Black 600,000

Brown 400,000

Cook 200,000

They have agreed to give each other 6% interest per annum on their capital accounts.

In addition to the above, partnership salaries of K 300,000 for Brown and K 180,000 for cook are to be charged. The net profit of the partnership, before taking any of the above into account was K 1,110,000.

**Required:**

Draw up the appropriation account of the partnership for the year ending 31 July 2018.

*(5 marks)*

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

*(5 marks)*

**(Total 20 marks)**

**END OF THE EXAMINATION PAPER**