

**INSTITUTE OF BANKERS IN MALAWI**

**CERTIFICATE IN BANKING EXAMINATION**

**SUBJECT: INTRODUCTION TO BUSINESS ACCOUNTING**

**(IOBM – C101)**

**Date:** **14th May 2018**

**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. Which financial statement displays the revenues and expenses of a company for a period of time?
2. Income statement
3. Statement of financial position
4. Cash flow statement
5. Statement of shareholders’ equity
6. Which financial statement uses the expanded accounting equation?
7. Income statement
8. Statement of financial position
9. Cash flow statement
10. Statement of shareholders’ equity
11. The accrual basis of accounting records revenues when they are:
12. Collected
13. Earned
14. Contracted
15. Readily available for
16. Asset accounts have what type of balance?
17. Debit
18. Credit
19. Contra
20. All of the above
21. Which account is not a liability account?
22. Accounts payable
23. Accrued expenses
24. Cash
25. Notes payable
26. Which account increases equity?
27. Expenses
28. Withdrawals
29. Treasury stock
30. Revenues
31. Which of the following is not a correct expression of the accounting equation?
32. Assets - Liabilities = Owners' Equity
33. Net Assets = Liabilities + Equities
34. Assets = Equities
35. Assets = Liabilities + Owners' Equity
36. The owners' equity section of a balance sheet contains two major components:
37. Share capital and Additional Paid-in Capital
38. Paid-in Capital and Retained Earnings
39. and Retained Earnings
40. Net Income and Dividends

1. The principle stating that all expenses incurred while earning revenues should be identified with the revenues when they are earned, and reported for the same time period is the:
2. Revenue principle.
3. Expense principle.
4. Matching principle
5. Timing principle.

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1. Which of these is not a limitation of financial statements?
2. Qualitative data are not reflected in financial statements.
3. Market values of assets are not generally reported.
4. All of the above are limitations of financial statements..
5. It may be difficult to compare firms in the same industry because they often use different accounting methods.http://highered.mheducation.com/olcweb/styles/shared/spacer.gif

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1. The time frame associated with a balance sheet is:
2. a point in time in the past.
3. a one-year past period of time.
4. a single date in the future.
5. a function of the information included in it.
6. The distinction between a current asset and other assets;
7. Is based on how long the asset has been owned.
8. Is based on amounts that will be paid to other entities within a year.
9. Is based upon whether the asset is tangible or intangible.
10. Is based on when the asset is expected to be converted to cash, or used to benefit the entity.

1. The principle of consistency means that:
2. The accounting methods used by an entity never change.
3. The same accounting methods are used by all firms in an industry.
4. The effect of any change in an accounting method will be disclosed in the financial statements or notes thereto. http://highered.mheducation.com/olcweb/styles/shared/spacer.gif
5. There are no alternative methods of accounting for the same transaction. http://highered.mheducation.com/olcweb/styles/shared/spacer.gif

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1. Bengo is a transporter and has a fleet of vehicles. Which is a liability to Bengo?
2. Depreciation of motor vehicles
3. Motor vehicle expenses outstanding
4. Motor vehicle insurance paid in advance
5. Stock of fuel for motor vehicle
6. Nachithidzi had the following assets and liabilities on 30th December 2018

**K**

Motor vehicles 5,000

Inventory 16,000

Debtors 4,000

Bank (dr) 3,000

Creditors 11,000

On 31st December 2017 Nachithidzi invested a further K4,500 as capital. What was her capital on 31st December 2017.

1. K21,500
2. K28,000
3. K32,500
4. K43,500
5. Which are assets of a business?
6. Creditors
7. Loan from the bank
8. Motor vehicle
9. Telephone bill prepaid
10. 1, 2 and 3
11. 1 and 3 only
12. 2,3 and 4
13. 3 and 4 only

1. A business trains its staff to use computers. The only aspect recorded in the ccounting records is the costs of the training courses and the computers. The value to the business of the new skills is not recorded.
2. Consistency
3. Money measurement
4. Prudence
5. Realization
6. John’s financial year ends on 31st December. In 2017, he paid K165000 for advertising in the local newspaper. This was for 15 months to 31st March2018. What will be recorded in John’s balance sheet at 31st December 2017?

K

1. Accrual 33,000
2. Accrual 132,000
3. Prepayment 33,000
4. Prepayment 132,000
5. The totals of a trial balance agreed. It was later found that goods sold on credit for K230,000 had been entered on the correct side of both the debtor’s account and the sales account as K320,000.

Which type of error is this?

1. Compensating error
2. Complete reversal of entries
3. Original entry
4. Principle

1. A sole trader provided the following information:

K

Gross profit 50,000

Wages paid 16,000

Rent received 1,000

Heating and lighting paid 4,000

Discount received 500

What was his net profit?

1. K28,500
2. K29,500
3. K30,500
4. K31,500

**SECTION B (40 MARKS)**

Answer **ANY THREE** questions from this section

**QUESTION 2**

Chikanda and Blackout are partners in a small business that sells spare parts in Limbe. The individual capital contributions in the business made by Chikanda and Blackout were K800,000 and K400,000 respectively. The opening current account balance for Chikanda was K70,000 while that of Blackout was K60,000 as at 1 January 2016. The partnership follows a normal calendar year.

**The following information relates to the partnership:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **Net profit before appropriation adjustments (K)** | **Drawings (K)** | |
| **Chikanda** | **Blackout** |
| 2016 | 380,000 | 130,000 | 170,000 |
| 2017 | 290,000 | 120,000 | 200,000 |

The partners had agreed that:

* 1. Salaries for Chikanda and Blackout will be pegged at K100,000 and K140,000 respectively.
  2. Interest should be allowed on capital at 7% per annum.
  3. The profit remaining or losses should be shared equally between the two partners.

**Required:**

1. Prepare profit and loss appropriation accounts and the partners’ current accounts for the two periods. *(15 marks)*
2. Mention **four** reasons on why a partnership agreement is important to a partnership. *(5 marks)*

**(Total 20 marks)**

**QUESTION 3**

1. Harrison Salima is a sole trader who maintains a full set of accounting records. He divides his ledger into three sections: General Ledger, Purchases Ledger and Sales Ledger.

**Required:**

1. State **two** advantage of dividing the ledger into these three sections. *(2 marks)*
2. Name **two** accounts which would appear in the General Ledger. *(2 marks)*
3. Harrison Salima prepares control accounts for his purchases and sales ledgers at the end of each month. The following information relates to the moth of April 2017:

On 1st April 2017 the balances brought down in the control accounts were:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Control Account** | **Amount (K)** | **Remark** |
| 1 | Purchases Ledger | 1,960,000 | Credit |
| 2 | Sales Ledger | 1,750,000 | Debit |
| 3 | Sales Ledger | 100,000 | Credit |

Totals of the journals for April 2017 were:

|  |  |  |
| --- | --- | --- |
|  | **Journal** | **Amount (K)** |
| 1 | Purchases | 4,190,000 |
| 2 | Sales | 5,150,000 |
| 3 | Sales Returns | 270,000 |
| 4 | Purchases Returns | 135,000 |

The cashbook for April 2017 showed:

|  |  |  |
| --- | --- | --- |
|  | **Description** | **Amount (K)** |
| 1 | Cheques received from debtors | 4,990,000 |
| 2 | Cheques paid to creditors | 3,830,000 |
| 3 | Cheque paid to a customer for overpayment | 100,000 |
| 4 | Discount allowed | 110,000 |
| 5 | Discount received | 180,000 |

The journal entries for April 2017 showed: Bad debts written off amounting to K70,000

**Required:**

1. Prepare the Purchases Ledger control account for the month of April 2017.

*(6 marks)*

1. Prepare the sales ledger control account for the month of April 2017.

*(10 marks)*

**(Total 20 marks)**

**QUESTION 3**

1. Name **two** books of original entry. *(2 marks)*
2. Explain the following:
3. Accrued expense *(1 mark)*
4. The treatment of a bank overdraft in the statement of financial position.

*(1 mark)*

1. A suspense account *(1 mark)*
2. Going concern concept *(1 mark)*
3. Matching concept *(1 mark)*
4. Hamaan draws up his accounts to 31st March. He brought a machine on 1April 2014 for K12,000,000. Depreciation is to be charged at 15% per annum on a reducing balance basis.
5. Calculate the depreciation charge in his accounts for the year ended 31st March 2015. *(2 marks)*
6. Calculate the depreciation charge in his accounts for the year ended 31st March 2016. *(2 marks)*
7. Calculate the net book value of the machine at 31st March 2016. *(2 marks)*
8. Show the journal entry to enter the depreciation for the year ended 31st March 2015 in Hamaan’s accounts. A narrative is not required. *(3 marks)*
9. IAS 2 *Inventories* outlines how inventories should be valued and also highlights the methods that should be used when valuing inventories.

**Required:**

1. State how inventories are valued in accordance with IAS 2 Inventories

*(2 marks)*

1. Explain briefly the **two** methods which are used to value inventories as permitted by IAS 2 *Inventories*. *(2 marks)*

**(Total 20 marks)**

**QUESTION 5**

Mr Changaya has been trading for some years as a retailer. The following list of balances has been extracted from his ledger as at 30 April 2017, the end of his most recent financial year.

|  |  |
| --- | --- |
|  | **Amount (K)** |
| Capital | 704,270 |
| Sales | 2,598,700 |
| Trade payables | 198,400 |
| Returns outward | 134,070 |
| Discount allowed | 23,060 |
| Provision for irrecoverable debts | 5,120 |
| Discount received | 17,500 |
| Purchases | 1,356,800 |
| Returns inwards | 56,240 |
| Carriage outwards | 45,620 |
| Drawings | 184,400 |
| Carriage inwards | 118,300 |
| Rent, rates and insurance | 259,730 |
| Heating and lighting | 110,100 |
| Postage, stationery and phone | 24,100 |
| Advertising | 59,800 |
| Salaries and wages | 385,210 |
| Irrecoverable debts | 20,080 |
| Cash in hand | 5,340 |
| Cash at bank | 44,400 |
| Inventory at 1 May 2016 | 156,540 |
| Trade receivables | 245,000 |
| Fixtures and Fittings | 1,207,400 |
| Provision for depreciation for Fixtures and Fittings as at 1 May 2016 | 630,200 |
| Depreciation | 120,740 |

The following information is also available as at 30th April 2017:

1. Inventory at the close of business was valued at K177, 750
2. Insurances have been prepaid by K11, 200
3. Heating and lighting is accrued by K13, 600
4. Rates have been prepaid by K54, 350
5. The provision for irrecoverable debts is to be adjusted so that it is 3% of trade receivables

**Required:**

1. Prepare Mr Changaya’s Income statement for the year ending 30th April 2017.

*(12 marks)*

1. Prepare Mr Changaya’s statement of financial position as at 30th April 2017.

*(8 marks)*

**(Total 20 marks)**

**QUESTION 6**

Jane Somba is a trader and her financial year ends on 30th April. The bank columns of her cashbook for the month of April 2016 were as follows:

Cash Book for the month of April 2016

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Details** | **Amount (K)** | **Date** | **Details** | **Amount (K)** |
| 1 April | Balance b/d | 2,210,000 | 9 April | Sana Stores | 436,000 |
| 12 April | Muli Traders | 314,000 | 16 April | General expenses | 125,000 |
| 30 April | Cash | 500,000 | 28 April | Ghani and Co | 390,000 |
|  |  |  | 30 April | Balance c/d | 2,073,000 |
|  |  | **3,024,000** |  |  | **3,024,000** |

Jane Somba’s business bank statement for April was as follows:

**Bank statement as 30th April 2016**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Details** | **Dr** | **Cr** | **Balance** |
| 1 April | Balance |  | 2,120,000 | 2,120,000 |
| 10 April | AB Insurance Co | 360,000 |  | 1,760,000 |
| 11 April | Dividend (Credit transfer) |  | 62,000 | 1,822,000 |
| 17 April | Sana Stores | 436,000 |  | 1,386,000 |
| 18 April | Muli Traders |  | 314,000 | 1,700,000 |
| 21 April | General expenses | 125,000 |  | 1,575,000 |
| 29 April | Muli Traders (Dishonoured cheque) | 314,000 |  | 1,261,000 |
| 30 April | Bank charges | 11,000 |  | 1,250,000 |

The following errors were discovered:

* 1. The cash book balance brought forward on 1st April should have been K2,120,000
  2. The bank had credited dividend received of K62,000 to Jane Somba’s business account instead of her personal account.

**Required:**

1. State **two** reasons other than finding errors why Jane Somba should reconcile her cash book with the statement received from the bank. *(2 marks)*
2. Update Jane Somba’s cash book. Bring down the updated cash book balance on 1st May 2016. *(8 marks)*
3. Prepare a bank reconciliation statement for Jane Somba as a 30th April 2016. *(6 marks)*
4. State the bank balance that should be shown in the balance sheet of Jane Somba a 30th April 2016. State whether it is an asset or liability. *(2 marks)*
5. Explain under what accounting concept is the crediting of dividend into Jane Somba’s personal account perceived wrong. *(2 marks)*

**(Total 20 marks)**

**END OF THE EXAMINATION PAPER**