

**INSTITUTE OF BANKERS IN MALAWI**

**CERTIFICATE IN BANKING EXAMINATION**

**SUBJECT: INTRODUCTION TO BUSINESS ACCOUNTING**

**(IOBM – C101)**

**Date: Monday, 12th November 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. What is the main aim of financial reporting?
2. To record every financial transaction individually.
3. To maintain ledger accounts for every transaction.
4. To prepare a Trial Balance.
5. To provide financial information to users of such information
6. Which of the following is not a qualitative characteristic of financial statements?
7. Relevance
8. Profitability
9. Comparability
10. Completeness
11. The accounting equation at the start of the month was Assets MK 10,304,000 less Liabilities MK 4,600,000. During the month the following transactions took place:

The business purchased a non-current asset for MK 2,208,000 paying by cheque, a profit of Mk 2,576,000 was made and payables of MK 2,024,000 was paid by cheque. Calculate the value of capital at the end of the month.

1. MK 8,280,000
2. MK 8,464,000
3. Mk 4,048,000
4. MK 6,072,000
5. If the owner of a business withdraws cash from his personal use, what will be the Journal Entries?
6. Dr. Capital Cr. Drawings
7. Dr. Cash Cr. Drawings
8. Dr. Drawing Cr. Capital
9. Dr. Drawing Cr. Cash
10. A business buys a machine for MK 8,832,000 on I January 2016 and another one on 1 July 2016 for MK 10,598,400. Depreciation is charged at 10% per annum on cost, and is calculated on a monthly basis. What is the total depreciation charge for the two machines for the year ended 31st December 2016?
11. MK 971,520
12. MK 1,413,120
13. MK 1,589,760
14. MK 1,943,040
15. A business commenced on 1st January 2016 and purchases are made as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Month** |  | **Number of Units** |  | **Unit Price** |  | **Value** |
|  |  | **MK** |  | **MK** |  | **MK** |
| January |  | 380 |  | 1,472 |  | 559,360 |
| February |  | 400 |  | 1,840 |  | 736,000 |
| March |  | 350 |  | 1,840 |  | 644,000 |
| April |  | 420 |  | 2,024 |  | 850,080 |
| May |  | 430 |  | 2,208 |  | 949,440 |
| June |  | 440 |  | 2,392 |  | 1,052,480 |
|  |  | **2,420** |  |  |  | **4,791,360** |

In June 1,420 units were sold for MK 5,152,000 calculate the cost of closing stock inventory and gross profit for the period using the First In First Out (FIFO) Method.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | Closing Inventory |  | Gross Profit |
|  |  | **MK** |  | **MK** |
| A |  | 2,126,672 |  | 2,625,312 |
| B |  | 1,700,160 |  | 2,060,800 |
| C |  | 1,979,840 |  | 2,340,480 |
| D |  | 2,392,000 |  | 2,752,640 |
|  |  |  |  |  |

1. In preparing the company’s bank reconciliation statement, the accountant finds that the following items are causing a difference between the cash book balance and the bank statement:
2. Direct Debit MK 530
3. Lodgments not credited MK 1,200
4. Cheque paid in by the company and dishonoured MK 234
5. Outstanding cheques MK 677
6. Bank charges MK 100
7. Error by the bank MK 2,399 (Cheque incorrectly credited to the account)

Which of these items will require and entry in the cash book?

1. 3, 4 and 6
2. 1, 2 and 4
3. 1, 3 and 5
4. 2, 5 and 6
5. Bond’s Trial Balance failed to agree and a suspense account was opened for the difference. Bond does not maintain control accounts for sales and purchases. The following errors were found in Bond’s accounting records:
6. In recording the sale of a non-current asset, cash received of MK 33,000 was credited to the disposal account as MK 30,000.
7. An opening accrual of Mk 340 had been omitted.
8. Cash of MK 8,900 paid for plant repairs was correctly accounted for in the cash book but was credited to the plant cost account.
9. A cheque for MK 12,000 paid for the purchase of a machine was debited to the machinery account as MK 221,000.

Which of the errors will require an entry to the suspense account to correct them?

1. 1, 3 and 4 only
2. 2 and 3 only
3. 1 and 4 only
4. All of them
5. Which one of the following is a book of prime entry and part of the double-entry system?
6. The Journal
7. The Petty Cash Book
8. The Sales Day Book
9. The Purchases Ledger
10. X receives goods from Y on credit and X subsequently pays by cheque. X then discovered that the goods are faulty and cancels the cheque before it is cashed by Y. How should X record the cancellation of the cheque in his books?

Debit Credit

1. Bank Payables
2. Payables Bank
3. Payables Returned Outwards
4. Returns Outwards Payables
5. Which accounting concept is followed when a business records the cost of a non-current asset even though it does not legally own it?
6. Substance Over form
7. Prudence
8. Accruals
9. Going Concern
10. According to IAS 2 inventories, which of the following costs should be included in valuing the inventories of a manufacturing company?
11. Carriage Outwards
12. Depreciation of Factory Plant
13. Carriage Inwards
14. General Administrative Overheads
15. All four items
16. 1, 3 and 4 only
17. 1 and 2 only
18. 2 and 3 only
19. A non-current asset was purchased at the beginning of 2013 for MK 1,766,400 and depreciated by 20% per annum by reducing balance method. At the beginning of 2016 it was sold for MK 883,200. Calculate the profit or loss on disposal of the non-current asset.
20. A loss on disposal of MK 176,640.00.
21. A profit on disposal of Mk 21,196.80.
22. A loss on disposal of MK 21,196.80
23. A Profit on disposal of MK 176,640.00
24. Which of the following description of the Going Concern assumption is the one used in IAS 1 (Revised) Presentation of Financial Statement?
25. Management does not intend to liquidate the entity nor to cease trading
26. The entity is able to pay its debts as and when they fall due.
27. The directors expect the entity’s assets to yield future economic benefits.
28. Financial Statements have been prepared on the assumption that the entity insolvent and would be able to pay all creditors in full in the event of being wound up.
29. Mixed Supplies Limited had a receivables allowance at 1st January 2016 of MK 736,000. It calculates that at 31st December 2016 a receivables allowance of MK 1,104,000 is required. In addition MK 1,472,000 of debts were written off during the reporting period, which includes MK 36,800 previously provided for. Calculate the amount that should be included in Mixed Supplies’ Income Statement in relation to receivable debts for the 123 month period ended 31st December 2016.
30. MK 1,876,800
31. MK 1,840,000
32. MK 1,803,200
33. MK 1,104,000
34. John had receivables of MK 3,312,000 at the strat of 2015. Duringthe year to 31st December 2015 he makes credit sales of MK 33,120,000 and receives cash of MK 34,224,000 from credit customers. Calculate the balance on his receivables account at 31st December 2015.
35. MK 4,416,000 Dr
36. MK 4,416,000 Cr
37. MK 2,208,000 Dr
38. Mk 2,208,000 Cr

1. Which of the following would be a credit balance in the Trial Balance?
2. Bank Overdraft
3. Drawings
4. Discount Allowed
5. Carriage Outwards
6. The following transactions relate to Rashid’s electricity expenses ledger account for the year ended 30th June 2016:

MK

Payment brought forward 404,800

Cash Paid 3,974,400

Accruals Carried Forward 478,400

Calculate the amount that should be charged to the Income Statement for the year ended 30th June 2016 for electricity.

1. MK 3,900,800
2. MK 3,974,400
3. MK 4,048,000
4. MK 4,875,600
5. Black Brown and Cook are partners. They share profits and losses in the ratio 5:3:2. For the year ending 31 July 2016, their capital accounts remained fixed at the following amounts: Black (MK 60,000), Brown (MK 40,000), and Cook (MK 20,000). They have agreed to give each other 6% interest per annum on their capital accounts. In addition to this, partnership salaries of MK 30,000 for Brown and MK 18,000 for Cook are to be charged. The net profit of the partnership before taking any of the above into account was MK 150,000. Calculate the share of partnership profit that will be allocated to brown.
6. MK 28,440
7. MK 32,760
8. Mk 47,400
9. MK 18,960
10. What kind of error occurs where a transaction is credited to the correct purchase ledger account but debited incorrectly to the repairs and renewals account instead of the plant and machinery account.
11. Error of Omissions
12. Error of Commission
13. Error of Principle
14. Error of Original Entry

**SECTION B (60 MARKS)**

Answer **ANY THREE** questions from this section

**QUESTION 2**

Peter Jackson has been in business for several years. The following trial balance was extracted from his books of accounts as at 30th September 2016

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Dr** |  | **Dr** |
|  |  | **MK** |  | **MK** |
| Bad Debts | | 15,000 |  |  |
| Capital | |  |  | 653,000 |
| Carriage Inwards | | 10,000 |  |  |
| Carriage Outwards | | 34,000 |  |  |
| Cash at Bank and In Hand | | 7,000 |  |  |
| Discount Allowed | | 18,000 |  |  |
| Discount Received | |  |  | 29,000 |
| Drawings | | 67,000 |  |  |
| Motor Vehicle at Cost | | 600,000 |  |  |
| Accumulated Depreciation at 1st October 2015 | | 240,000 |  |  |
|  | Motor Vehicle |  |  | 300,000 |
|  | Plant and Equipment |  |  | 144,000 |
| Provision for Doubtful Debts | |  |  | 3,000 |
| Purchases | | 570,000 |  |  |
| Business Rates | | 105,000 |  |  |
| Sales |  |  |  | 900,000 |
| Inventory at 1st October 2015 | | 200,000 |  |  |
| Trade Receivables | | 160,000 |  |  |
| Trade payables | |  |  | 71,000 |
| Wages | | 74,000 |  |  |
|  |  | **2,100,000** |  | **2,100,000** |

1. Inventory at 30 September 2016 was MK 180,000.
2. Depreciation is charged as follows:

* Motor Vehicles 25% on Cost
* Plant and Equipment 30% on Cost

1. Wages owing at 30th September 2016 was MK 2,000.
2. Business rates paid in advance at 30th September 2016 was MK 5,000.
3. Provision for doubtful debts is maintained equivalent to 2.5% of outstanding trade receivables as at the end of the year.

**Required:**

1. Prepare an Income Statement for Peter Jackson for the year ended 30th September 2016. *(12 marks)*
2. Prepare a Statement of Financial Position for Peter as at 30th September 2016. *(8 marks)*

**(Total 20 marks)**

**QUESTION 3**

Chimwe and Chisa are in partnership buying Irish potato in Dedza and selling at the Blantyre Market. The partnership agreement provides for an annual salary of MK 40,000 to Chimwe and MK 20,000 to Chisa. The partners are also entitled to 10% interest per annum on their capital. The interest on drawings is set at 20% per annum. Profits and losses are shared equally. The Income Statement for the Partnership for the year ended 30th April 2017 was as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Dr** |  | **Dr** |
|  |  | **MK** |  | **MK** |
| Sales | |  |  | 553,000.00 |
| Cost of Sales | |  |  | 160,000.00 |
| **Gross Profit** | |  |  | **393,000.00** |
| Less Expenses | |  |  |  |
|  | City Rates | 30,000.00 |  |  |
|  | Depreciation | 76,000.00 |  |  |
| Rent (MK 4,500 - MK 8,000 Prepayments) | | 37,000.00 |  |  |
| Electricity (Includes MK 23,000 Accruals) | | 53,000.00 |  |  |
| Telephones | | 28,000.00 |  |  |
| Salaries | | 35,000.00 |  |  |
| Office Expenses | | 55,000.00 |  | 314,000.00 |
| **Net Profit** | |  |  | **79,000.00** |
|  | |  |  |  |

Additional information in relation to account balances as at 30th April 2017:

|  |  |  |
| --- | --- | --- |
|  |  | **MK** |
| Property, Plant and Equipment (NBV) | | 380,000.00 |
| Capital: | |  |
|  | Chimwe | 150,000.00 |
|  | Chisa | 200,000.00 |
| Drawings: | |  |
|  | Chimwe | 90,000.00 |
|  | Chisa | 60,000.00 |
| Receivables | | 40,000.00 |
| Payables | | 70,000.00 |
| Bank Overdraft | | 16,000.00 |
| Closing Inventories | | 36,000.00 |

**Note:** For property, plant and equipment the balance is the brought forward figure.

**Required:**

1. Prepare an Appropriation Account for the partnership for the year ended 30th April 2017. *(8 marks)*
2. Prepare a Current Account, clearly showing separately the transaction for each partner. *(6 marks)*
3. Prepare a Statement of Financial Position for the partnership as at 30th April 2017. *(6 marks)*

**(Total 20 marks)**

**QUESTION 4**

The following is a Trial Balance extract for Tiyanjane Traders as at 31st December 2017.

Dr Cr

MK MK

Motor Vehicle at Cost 127,000,000

Accumulated Depreciation 76,000,000

During the year 2017, the following transactions took place.

1. A delivery van which had a cost MK 2,000,000 and was fully depreciated was scrapped. No proceeds were received.
2. A lorry costing MK 5,000,000 which had accumulated MK 3,000,000 in depreciation had been traded in for a new model with full cost of MK 8,000,000. A trade in allowance of MK 1,500,000 was received and only the net cost of the new lorry was amounting to MK 6,500,000 was entered in the books.
3. A Saloon car which cost MK 4,000,000 and had a written down value of MK 1,250,000 was sold for MK 1,600,000. The proceeds have been credited to the disposal account.
4. A delivery van was sold for MK 2,500,000. The van had cost MK 10,000,000 and a loss of MK 750,000 was made on its sale. The proceeds have been credited to the Motor Vehicle Account.
5. The depreciation charge for the year is MK 25,000,000.

**Required:**

1. Motor Vehicle Account  *(6 marks)*
2. Motor Vehicle Depreciation Account  *(6 marks)*
3. Disposal of Motor Vehicle Account *(8 marks)*

**(Total 20 marks)**

**QUESTION 5**

The following balances were extracted from the books of Mchenga Limited at 31st December 2017:

|  |  |
| --- | --- |
| Opening Balance | **MK** |
| Receivable Ledger Control | 63,158.00 |
| Payables Ledger Control | 32,000.00 |
| Provision for Doubtful Debts | 3,158.00 |

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

|  |  |
| --- | --- |
|  | **MK** |
| Sales on Credit | 550,000.00 |
| Purchases on Credit | 276,000.00 |
| Sales return | 6,000.00 |
| Purchases Return | 4,000.00 |
| Cash Receivables (Excluding Bad Debts Recovered) | 517,268.00 |
| Cash Paid to Suppliers | 258,100.00 |
| Discount Allowed to Customers | 12,790.00 |
| Discount Received from Suppliers | 5,900.00 |
| Bad Debts Written Off | 4,100.00 |
| Receivables and Payables Account Settled by Setting Off | 4,000.00 |

**Additional Information:**

1. The Company passes transactions for bad debts written off and recovered through The Provision for Doubtful Debts Account.
2. Provision for doubtful debts at year-end is to be 5% of receivables.

**Required:**

1. Prepare the following:
2. Receivables Ledger Control Account *(6 marks)*
3. Payables Ledger Control Account *(6 marks)*
4. Provision for Doubtful Debts Account *(4 marks)*
5. Explain the following Accounting Concepts:
6. Separate Business Entity *(2 marks)*
7. Accruals *(2 marks)*

**(Total 20 marks)**

**QUESTION 6**

Write short notes on the following:

1. Accounting Equation *(4 marks)*
2. Depreciation *(4 marks)*
3. The difference between a Trade Discount and Cash Discount.

*(4 marks)*

1. The difference between Revenue Expenditure and Capital Expenditure.  *(4 marks)*
2. Books of Prime Entry. *(4 marks)*

**(Total 20 marks)**

**END OF THE EXAMINATION PAPER**