



# AFRICA UNIVERSITY

*(A United Methodist-Related Institution)*

**“Investing In Africa’s Future”**

**FACULTY OF MANAGEMENT AND ADMINISTRATION**

**COURSE TITLE: FINANCIAL & MANAGEMENT ACCOUNTING**

**COURSE CODE: MAC 501**

**SEMESTER 1: MAIN EXAMINATION – NOVEMBER. 2014**

**LECTURER MR I. RARAMI**

**TIME: 4 HOURS**

## ***INSTRUCTIONS***

**Answer all four questions**

\_\_\_\_\_

The marks allocated to each question are shown at the end of the question

Show all your workings

Credit will be given for presentations that are neat, logical and grammatically well constructed.

Qu

The Trial Balance of High Quality Products Ltd is as follows:

**Trial Balance as at 31/3/2014**

	Dr	Cr
15% preference share capital: \$2 shares		280000
Ordinary share capital: \$1 shares		400000
General reserve		35000 Foreign
exchange reserve	20000	
Retained earnings 31/03/13		29400
Sales		1848000
Returns inwards	47600	
Purchases	870000	
Carriage Inwards	18500	
Inventories at 31/03/13		
Finished goods	257600	
Salaries & wages (administration)	182600	
Salaries & wages (sales)	193800	
Motor vehicle expenses	85600	
General distribution expenses	53800	
General administration expenses	32000	
Debenture interest	2800	
Rent income		17000
Trade receivables	263500	
Provision for bad debts		26700
Director's remuneration	117600	
Discount allowed	19600	
Discount received		15400
Plant & machinery at cost	336000	
Accum depreciation (plant & machinery)		100000
Motor vehicles at cost	168000	
Accum depreciation (motor vehicles)		68000
Goodwill	250000	
Trade Payables		100000
Share of profit of association		63000
Cash at bank	57800	
Bills receivable	28700	
10% unsecured debentures		45000
Preference dividend	42000	
Ordinary dividend	<u>20000</u>	
	<u>3047500</u>	<u>3047500</u>

**Additional Information**

- i). Inventories as at 31/3/14 were as follows: Finished goods \$320000
- ii). Provide for annual depreciation on non-current assets as follows:
  - Plant and machinery 10% on cost
  - Motor vehicles 15% on reducing balance method

- iii). Motor vehicle expenses and depreciation on motor vehicles should be apportioned as follows:
- |                          |     |
|--------------------------|-----|
| Selling and distribution | 75% |
| Administration           | 25% |
- iv). Plant and machinery depreciation should be apportioned as follows:
- |                          |     |
|--------------------------|-----|
| Cost of goods sold       | 60% |
| Selling and distribution | 30% |
| Administration           | 10% |
- v). An impairment cost for goodwill showed that this asset was impaired by \$50000 in the current financial year.
- vi). Company tax is payable at the rate of 35% of profits.
- vii). The existing provision for bad debts is considered to be adequate.

**Required:**

- a). Draw up High Quality Products Ltd's Statement of Profit or Loss & other Comprehensive income based on the function of expense method.  
[15]
- b). Draw up High Quality Products Ltd's Statement of Financial [12]
- c). Statement of changes in Equity [ 3]

**Question 2**

You are given the following summarised financial statements of Timber Timber (Pvt) Ltd who is a competitor of your company Fine Timber Products (Pvt) Ltd.

**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER.**

	2011	2012	2013
	\$	\$	\$
Turnover	39000	41700	42000
Cost of sales	<u>25800</u>	<u>28200</u>	<u>30300</u>
Gross Profit	<u>13200</u>	<u>13500</u>	<u>12600</u>
Distribution Costs	2100	2400	3000
Administration Costs	<u>5700</u>	<u>6900</u>	<u>5700</u>
Operating Expenses	<u>7800</u>	<u>9300</u>	<u>8700</u>
	5400	4200	3900
Operating Profit			
Interest	<u>600</u>	<u>1200</u>	<u>1500</u>
Profit before tax	4800	3000	2400
Taxation	<u>150</u>	<u>300</u>	<u>450</u>
Profit after tax	4650	2700	1950
Retained Profits b/f	<u>1320</u>	<u>2070</u>	<u>320</u>
	5970	4770	4320
Dividends	<u>3900</u>	<u>2400</u>	<u>1500</u>
Retained Profits c/f	<u>2070</u>	<u>2370</u>	<u>2830</u>

**STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER**

	2011	2012	2013
	\$	\$	\$
Fixed Assets	<u>6672</u>	<u>8586</u>	<u>8268</u>

<u>Current Assets</u>			
Inventory	5400	5100	4500
Receivables	<u>7800</u>	<u>9000</u>	<u>9600</u>
	<u>13200</u>	<u>14100</u>	<u>14100</u>
<u>Current Liabilities</u>			
Trade Payables	2400	2220	2106
Other Payables	2190	2010	1584
Bank Overdraft	<u>1902</u>	<u>3276</u>	<u>2748</u>
	<u>6492</u>	<u>7506</u>	<u>6438</u>
Net Current Assets	<u>6708</u>	<u>6594</u>	<u>7662</u>
Net Assets	<u>13380</u>	<u>15180</u>	<u>15930</u>
Ordinary share capital	6900	6900	6900
General Reserves	2910	2910	2910
Retained Profits	<u>2070</u>	<u>2370</u>	<u>2820</u>
	<u>11880</u>	<u>12180</u>	<u>12630</u>
Long Term Loans	<u>1500</u>	<u>3000</u>	<u>3300</u>
	<u>13380</u>	<u>15180</u>	<u>15930</u>

a) You are required to calculate the following ratios for each year:

i) **Profitability ratios**

Gross profit margin	[3]
Net profit margin	[3]
Return on assets	[3]
Return on capital employed	[3]
Return on equity	[3]

ii) **Liquidity ratios**

Current ratio	[3]
Acid-test ratio	[3]

b. Prepare a report for the board of directors of your company, interpreting the financial statements of Timber Timber (Pvt) Ltd from 2011 to 2013. [7]

### Question 3

a). Handizivi has provided you with the following information, concerning his costs and revenue.

Sales revenue	\$200000
Variable costs	\$100000
Fixed costs	\$ 20000

He asked you Vanoziva to calculate the following for him:

- i). Break-even sales in value [2]
  - ii). Break-even sales in volume [2]
  - iii). The contribution sales ratio [2]
  - iv). The margin of safety in value [2]
  - v). The margin of safety ratio [2]
  - vi). The sales volume to required to increase profits to \$120000 [2]
- b). i). Define standard costing. [2]

ii). A firm produces a single product known as Hope. The actual usage of the direct material was 4200kg at \$22.50 per kg while the standard usage was 4500kg at \$20 per kg.

**You are required to calculate:**

- i). The direct material usage variance. [2]
- ii). The direct material price variance [2]
- iii). The direct material total variance [2]

#### **Question 4**

- i). What are the roles of management accounting, [2]
- ii). State clearly five major differences between financial accounting and management accounting. [10]
- iii). Give six advantages and four disadvantages of budgetary planning. [10]

END OF PAPER