



*"Investing in Africa's Future"*

## **FACULTY OF MANAGEMENT AND ADMINISTRATION**

**MAC 501 FINANCIAL AND MANAGEMENT ACCOUNTING**

**END OF SECOND SEMESTER EXAMINATIONS**

**APRIL/MAY 2017 (1)**

**LECTURER: MR CHUCHU**

**DURATION: (4 HRS)**

**EMBA**

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### ***INSTRUCTIONS***

**Answer ALL 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.

**QUESTION ONE [25 MARKS]**

You are given the following summarised financial statements of Takashinga (Pvt) Ltd who is a competitor of your company Tikakunda (Pvt) Ltd

**STATEMENT OF PROFIT/LOSS & OTHER COMPREHENSIVE  
INCOME FOR THE YEAR ENDED 31 DECEMBER.**

	2014	2015	2016
	\$	\$	\$
Turnover	35100	39000	41700
Cost of Sales	<u>22800</u>	<u>25800</u>	<u>28200</u>
Gross Profit	<u>12300</u>	<u>13200</u>	<u>13500</u>
Distribution Costs	1800	2100	2400
Administration Costs	<u>5400</u>	<u>5700</u>	<u>6900</u>
Operating Expenses	<u>7200</u>	<u>7800</u>	<u>9300</u>
Operating Profit	5100	5400	4200
Interest	<u>150</u>	<u>600</u>	<u>1200</u>
Profit Before tax	4950	4800	3000
Taxation	750	150	300
Profit After tax	4200	4650	2700
Retained Profit b/f	<u>720</u>	<u>1320</u>	<u>2070</u>
	4920	5970	4770
Dividends	<u>3600</u>	<u>3900</u>	<u>2400</u>
Retained Profits c/f	<u>1320</u>	<u>2070</u>	<u>2370</u>

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

	2014	2015	2016
	\$	\$	\$
Non-Current Assets	4596	6672	8586
Current Assets			
Inventory	4800	5400	5100
Receivables	6300	7800	9000
Bank	<u>204</u>	<u>-</u>	<u>-</u>
	<u>11304</u>	<u>13200</u>	<u>14100</u>
<u>Current Liabilities</u>			
Trade Payables	2160	2400	2220
Other Payables	2610	2190	2010
Bank Overdraft	<u>-</u>	<u>1902</u>	<u>3276</u>
	<u>4770</u>	<u>6492</u>	<u>7506</u>
Net Current Assets	<u>6534</u>	<u>6708</u>	<u>6594</u>
Net Assets	<u>11130</u>	<u>13380</u>	<u>15180</u>
Ordinary Share Capital	6900	6900	6900
General Reserves	2910	2910	2910
Retained Profits	1320	2070	2370
	11130	11880	12180
Long Term Loans	<u>-</u>	<u>1500</u>	<u>3000</u>
	<u>11130</u>	<u>13380</u>	<u>15180</u>

a). Calculate the following ratios for each year:

- i). Profitability ratios [5 marks]
- ii). Asset utilisation ratios [5 marks]
- iii). Liquidity ratios [2 marks]
- iv). Debt utilisation ratios [3 marks]

b). Prepare a report for the board of directors of your company, interpreting the financial statements of Takashinga (Pvt) Ltd from 2014 to 2016.

[10 marks]

## QUESTION TWO [27 MARKS]

a). The trial balance of Bright Morning Ltd has been provided for the year ended 31 December 2016 as follows:

	DR \$	CR \$
Buildings	160000	
Capital		250000
Bank	23000	
Sales		260000
Trade Receivables	30000	
Trade Payables		24600
Plant & Machinery	190000	
Accumulated depreciation on plant & machinery		80000
Purchase of raw materials	96000	
Selling expenses	9000	
Administrative Expenses	2600	
Distribution Expenses	16200	
Factory wages	13000	
Factory Expenses	9200	
Rates	5600	
Inventory 1/1/2016		
Raw materials	22000	
Work in Progress	17000	
Finished goods	21000	
	<u>614600</u>	<u>614600</u>

You are provided with the following additional information:

i). Inventory at 31 December 2016:

	\$
Raw materials	16600
Work-in-Progress	20000
Finished goods	24000

ii). Rates of \$1600 had been prepaid

iii). Provide depreciation on cost as follows:

Building	3%
Plant and Machinery	10%

**Required:**

- i). Statement of Profit or Loss and other comprehensive income.
- ii). Statement of Financial Position as at 31 December 2016 [19 marks]
  
- b). List and explain the five (5) elements of financial statement (Reference IASB Conceptual Framework) [5 marks]
  
- c). Briefly explain the purposes of Financial Statements. [3 marks]

**QUESTION THREE [20 MARKS]**

A manufacturing company wishes to prepare its cash budget for the period July to December 2017 in order to assess its financing requirements. The following are budgeted sales for the month ending 31 January 2018.

<u>Month</u>	<u>Amount</u>
<b>2017</b>	<b>\$</b>
May	150000
June	150000
July	300000
August	450000
September	600000
October	300000
November	300000
December	750000

**2018**

January 150000

All sales were made on credit. Collection estimates obtained from the credit control department indicate the following.

Collection during the month of sale	5%
Collection in the month following the month of sale	80%
Collection in the second month following the month of sale	14%
Proportion of Debtors expected to turn bad	1%

A 3% cash discount is allowed on sales which are paid for in the month of sale.

The following forecasts of expenditure were obtained from the relevant departments

Items of Expenditure

Month	Purchases Of Raw Materials	Manufacturing labour costs
<u>2017</u>	<u>\$</u>	<u>\$</u>
May	45000	30000
June	45000	30000
July	63000	42000
August	441000	294000
September	153000	102000
October	117000	78000
November	81000	54000
December	45000	30000

General administrative salaries, Miscellaneous and depreciation were \$22400, \$8900 and \$8000 each month respectively.

Payment for purchases are made as follows:

Paid during the month of purchase	10%
Paid during the month following the month of purchase	90%

A 4% cash discount is received in respect of purchases paid for in the month of purchase. Payment for the manufacturing labour costs and general administrative salaries are made in the month in which they are incurred.

Miscellaneous expenses are paid for in one month in arrears.

Cash in hand on 1 July 2017 will amount to \$110000. The firm may meet its cash shortfalls from a bank overdraft facility.

**Required:**

Prepare the cash budget. [20 marks]

**QUESTION FOUR [18 MARKS]**

a). The following is The Statement of Financial Position of Hope Business Ltd as at 31 December 2016 and 31 December 2015 and The Statement of Comprehensive Income for the year ended 31 December 2016.

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
Current Assets:		
Cash	17 000	20 000
Marketable Securities	10 000	10 000
Accounts receivable	130 000	140 000
Merchandise Inventory	60 000	25 000
Prepaid Expenses	8 000	5 000
Total Current Assets	<u>225 000</u>	<u>200 000</u>
Investment in Kurima stock	45 000	0
Facilities and Equipment	470 000	400 000
Less Accumulated depreciation	140 000	100 000
Land	<u>350 000</u>	<u>400 000</u>
Total Assets	<u>950 000</u>	<u>900 000</u>
<b><u>Liability and Stockholder's Equity</u></b>		
Current Liability:		
Accounts Payable	85 000	70 000
Accrued Salaries Payable	<u>20 000</u>	<u>30 000</u>
Total Current Liability	105 000	100 000
Deferred Income Tax	10 000	15 000
Bonds Payable	<u>190 000</u>	<u>250 000</u>
Total Liability	<u>305 000</u>	<u>365 000</u>
Stockholder's Equity		
Common Stock	255 000	235 000
Retained earnings	<u>390 000</u>	<u>300 000</u>
Total Stock holder's equity	<u>645 000</u>	<u>535 000</u>
Total Liability and Stockholder's equity	<u>950 000</u>	<u>900 000</u>

**Statement of Comprehensive Income of Agri-Business Ltd for the year ended 31 December 2016.**

Revenue:

Slope fees	300 000	
Rentals	635 000	
Sales of merchandise	<u>45 000</u>	
Total revenue		980 000

Less: Cost of Merchandise Sold		<u>30 000</u>
Gross Margin		950 000

**Less: Operating expenses**

Salaries	270 000	
Insurance	80 000	
Property Taxes	35 000	
Depreciation	40 000	
Utilities	90 000	
Maintenance	70 000	
Advertising	25 000	
Administration	155 000	
Interest on Bonds	<u>25 000</u>	
Total Operating expenses		<u>790 000</u>
Income Before taxes		160 000
Income Tax expense		<u>50 000</u>

Net Income		110 000
Retained earnings 31 December 2015		<u>300 000</u>
		410 000
Deduct: Dividends declared in 2016		<u>20 000</u>
Retained earnings, December 31, 2016		<u>310 000</u>

**Required:**

- i). To prepare a cash flow statement of Hope Business Ltd for the year ended 31 December 2016. **[18 marks]**

### QUESTION FIVE [10 MARKS]

c). Hill Limited manufactures and sells a single product. The following data relate to the product for a certain period:

Planned sales volume in units	15 000
Selling price per unit	\$40
Variable cost per unit	\$15
Total fixed cost	\$150 000

**Required:**

Compute the following:

- (a) the contribution margin per unit; [2 marks]
- (b) the contribution margin ratio; [2 marks]
- (c) the break-even point in units and in dollars; [2 marks]
- (d) the margin of safety ratio; [2 marks]
- (e) the sales volume in units that is required to earn a profit of \$250 000. [2 marks]

**END OF PAPER**