"Investing in Africa's Future"

COLLEGE OF HEALTH, AGRICULTURE & NATURAL SCIENCES

AEC 505 FINANCIAL ACCOUNTING

END OF SECOND SEMESTER EXAMINATIONS

MAY 2023

LECTURER: DR W. MATAMANDE

DURATION: 3 HOURS

INSTRUCTIONS

Do not write your name on the answer sheet

Use Answer Sheets Provided

Begin your answer for Each Question on a New Page

Credit is Given for Neat Presentation

INSTRUCTIONS TO CANDIDATES

Answer QUESTION 1 and any other three from the remaining questions.

Question 1(40 marks)

(a) AU Ltd is considering the possibility of diversifying its operations and has identified three firms in the same industrial sector as potential takeover targets. The following information in respect of the companies has been extracted from their most recent financial statements.

	Ali Ltd	Baba Ltd	Camel Ltd
ROCE before tax %	22.1	23.7	25.0
Net profit %	12.0	12.5	3.75
Asset turnover ratio	1.45	1.16	3.73
gross profit	20.0	25.0	10.0
sales/ non-current assets	4.8	2.2	11.6
sales/ current assets	2.1	5.2	5.5
current ratio	3.75	1.4	1.5
Acid test ratio	2.25	0.4	0.9
average number of weeks receivables outstanding	5.6	6.0	4.8
average number of weeks inventory held	12.0	19.2	4.0
ordinary dividend %	10.0	15.0	30.0
dividend cover	4.3	5.0	1.0

Required

Prepare a report for the directors of AU Ltd, assessing the Performance of the three companies from the information provided and identifying areas which you consider require further investigation before a final decision is made. (**20 marks**)

(b) Discuss the importance of ratio analysis in measuring company performance, drawing your attention to the selection of the appropriate ratios, trend analysis, and horizontal analysis.

(**20 marks**)

Question 2(20 marks)

A newly started company wishes to prepare cash budget from January. Prepare a cash budget for the first six months from the following estimated revenue and expenses:

Month	Total sales ($)	Purchases ($)	Wages ($)	Production Overheads ($)	Selling & Distribution Overheads ($)
January	20,000	20,000	4,000	3,200	800
February	22,000	14,000	4,400	3,300	900
March	28,000	14,000	4,600	3,400	900
April	36,000	22,000	4,600	3,500	1,000
May	30,000	20,000	4,000	3,200	900
June	40,000	25,000	5,000	3,600	1,200

Cash balance on 1st January was $10,000. A new machinery is to be installed at $ 20,000 on credit, to be repaid by two equal installments in March and April.

Sales commission @ 5 % on total sales is to be paid within a month following actual sales.

$10 000 being the amount of 2nd call (on sale of shares) may be received in March. Share premium amounting to $ 2,000 is also obtainable with the 2nd call.

Period of credit allowed by suppliers - 2 months

Period of credit allowed by customers - 1 month.

Delay in payment of wages ½ month & overheads 1 month.

Assume cash sales to 50% of total sales

Question 3 (20 marks)

XYZ limited operates a chain of shoe stores. The stores sell ten different styles of man shoes with identical purchase cost and selling prices. The company is trying to determine the desirability of opening another store, which would have the following expense and revenue relationships per pair.

Variable data	
Selling price	30.00
Cost of shoes	19.50
Salesman commission	1.50
Total variable expense	21. 00
Annual fixed expense	$
Rent	60 000
Salaries	200 000
Advertising	80 000
Other fixed expenses	20 000
Total fixed expenses	360 000

Required to calculate the following. (Consider each question separately)

a) What is Annual Break -Even Point in sales amount and in unit sales? (**4 marks**)

b) If 35,000 pairs of shoes are sold, what would the stores net income be? (**4 marks**)

c) If the store manager was paid $0, 30 commission, what would be the annual break-even point be in sales amount and in unit sales? (4 **marks**)

d) Refer to the original data. If the store manager was paid $0, 30 per pair as commission on each pair sold in excess of the break -even point, what would be the stores net income if 50,000 pairs were sold? (**4 marks**)

e) Refer to the original data. I f sales commissions were discontinued in favour of $81,000 increase in fixed salaries, what would the annual break-even point be in amount and in unit sales? (**4 marks**)

Question 4(20 marks)

A conference has been organized by members of your agro business industry to discuss among other things problems bedeviling the industry. Certain members' think they have not been able to account for their operations properly and they believe that they should at least keep either management accounting or financial accounting. The organizers realize that you have done a module on accounting in your recent studies they have asked you to present a paper on the differences between financial and management accounting.

Question 5(20 marks)

(a) Explain fully and illustrate classifications used in the analysis of product and service costs. (**10 marks**)

(b) Discuss the assertion that classification of a cost depends on the purpose for which it is required. (**10 marks**)

Question 6(20 marks)

The summarised profit loss statement for Indigenous (Pvt) Ltd for last year is as follows:

	$000	$000
Sales (50,000 units)		1000
Direct materials	350	
Direct wages	300	
Fixed production overheads	280	
Variable production overheads	170	1100
		(100)

At a recent board meeting the directors discussed last year's results following which the chairman asked for suggestions to improve the situation.

Required:

(a) You are required as part of the management team to evaluate the following and to comment briefly on each alternative independent proposals:

(i) Reduce selling price by 10%, which it is estimated would increase sales volume by 30%.

(ii) Increase direct wage rates from \$6 to \$8 per unit, as part of a productivity/pay deal. It is hoped that this would increase production and sales by 20%. Additional advertising costs of \$50.000 would be incurred

(iii) Increase sales by additional advertising costs of \$30,000; with an increased selling price of 20%.

(**14 marks**)

(b) 'A break even chart must be interpreted using its underlying assumptions'. Discuss the assumptions used in cost-volume –profit analysis. Relevant examples should be given to support your discussions.

(**6 marks**)