



AFRICA
UNIVERSITY
A United Methodist-Related Institution “

Investing in Africa's Future”

COLLEGE OF HEALTH, AGRICULTURE & NATURAL SCIENCES

NAEC 505: FINANCIAL ACCOUNTING

END OF SECOND SEMESTER FINAL EXAMINATIONS

APRIL/ 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) The following are the accounts of Bouncy Pvt. Ltd, a company that manufactures playground equipment for the year ended 30 November 2019

Statements of comprehensive income for years ended 30 November

	2019	2018
	\$000	\$000
Profit before interest and tax	2,200	1,570
Interest expense	<u>170</u>	<u>150</u>
Profit before tax	2,030	1,420
Taxation	<u>730</u>	<u>520</u>
Profit after tax	1 300	900
Dividends paid	<u>250</u>	<u>250</u>
Retained profit	1,050	650
	2016	2015
	\$000	\$000
Non-current assets (written down value)	6,350	5,600
Current assets		
Inventories	2, 100	2,070
Receivables	<u>1,710</u>	<u>1,540</u>
	10,160	9,120
Creditors: amounts due within one year		
Trade payables	1,040	1,130
Taxation	550	450
Bank overdraft	<u>370</u>	<u>480</u>
Total Assets less current liabilities	8,200	7,150
Creditors amounts due after more than one year		
10% debentures	<u>1,500</u>	<u>1,500</u>
	<u>6,700</u>	<u>5,650</u>
Capital and reserves		
Share capital: ordinary shares of 50c fully paid up	3,000	3,000
Share premium	750	750
Retained earnings	<u>2,950</u>	<u>1,900</u>
	<u>6,700</u>	<u>5,650</u>

The directors are considering two schemes to raise \$ 6 000 000 in order to repay the debentures and finance expansion estimated to increase profit before interest and tax by \$ 900 000. It is

proposed to make a dividend of 6c per share whether funds are raised by equity or loan. The two schemes are:

1. An issue of 13% debentures redeemable in 30 years.
2. A rights issue at \$1, 50 per share. The current market price is \$1,80 per share (2017: \$1,50; 2016: \$1,20

Required:

- (i) Calculate the return on capital employed and any three investment ratios of interest to a potential investor. **(5 marks)**
- (ii) Calculate three ratios of interest to a potential long term lender. **(5 marks)**
- (iii) Report briefly on the performance and state of the business from the viewpoint of a potential shareholder and lender using the ratios calculated above and explain any weaknesses in these ratios. **(10 marks)**
- (b) Evaluate the use of ratio analysis in assessing company performance **(20 marks)**

Question 2

Windy Limited has prepared the following cost analysis for 6 months of trading.

Sales (sets)	1,800
Price	\$850 per set
Materials costs	\$150 per set
Labour costs	\$150 per set
Other variable costs	\$150 per set
Overheads	\$600,000 for 6 months operation

Required

- (a) Draw the break-even chart for the company for the 6-month period. **(4 marks)**
- (b) Determine the break-even quantity, and confirm this by calculation. **(4 marks)**
- (c) Identify the firm's margin of safety for the period. **(4 marks)**
- (d) Calculate the profit made during the period? **(4 marks)**

(e) Evaluate the use of break-even analysis to a company within its decision-making procedures.

(4 marks)

Question 3(20 marks)

Zimbabwe open for Business Pvt. Ltd is experiencing difficulty in estimating cash collections for the second quarter of 2022. Inspection of records and documents reveals the following information:

February	March	April	May	June
\$126000	\$116000	\$124000	\$146000	\$136000

Analysis of past collection patterns helped to develop the following;

- 30 percent of each month's sales are for cash, with no discount.
- 40 % of the credit sales are collected in the month following the sale.
- 10% of the credit sales are collected in the second moth after the sale
- Zimbabwe open for Business's accounts receivable balance at April 1 is estimated at \$49420-00

Required:

(a) Prepare a table of cash received from sales for each month in the second quarter

(15 marks)

(b) Discuss the importance of good budgeting

(5 marks)

Question 4(20 marks)

(a) Discuss any four qualitative characteristics of financial statements identified in the Accounting Conceptual Framework?

(15 marks)

(b) What does 'relevance' mean in the context of financial statements?(5 marks)

(5 marks)

Question 5 (20 marks)

‘In the broadest sense all accounting is management accounting. All financial and cost information generated goes to management’.

- (a) Define management accounting clearly making a distinction from financial accounting.
(10 marks)
- (b) Evaluate the above statement, clearly articulating the perception of management on the two fields of accounting.
(10 marks)

Question 6(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)

END OF EXAMINATION PAPER