



“Investing in Africa’s Future”
COLLEGE OF HEALTH, AGRICULTURE & NATURAL SCIENCES

NAEC 505: FINANCIAL ACCOUNTING

END OF SECOND SEMESTER FINAL EXAMINATIONS

APRIL 2022

LECTURER: DR. W. MATAMANDE

DURATION: 3 HOURS

INSTRUCTIONS

Do not write your name on the answer sheet

Answer **Question One** (40 marks); and **Any other Three Questions** (20 marks each)

Begin your answer for Each Question on a New Page

Credit is Given for Neat Presentation

Question 1(40 Marks)

Indigino Pvt. Ltd has carried on business for a number of years as a retailer of a wide variety of consumer products. The entity operates from a number of stores around the country. In recent years the entity has found it necessary to provide credit facilities to its customers in order to maintain growth in revenue. As a result of this decision the liability to its bankers has increased substantially. The statutory financial statements for the year ended 31 December 2021 have recently been published and extracts are provided below, together with comparative figures for the previous two years.

STATEMENTS OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER

	2019	2020	2021
	\$m	\$m	\$m
Revenue	1 850	2 200	2 500
Cost of Sales	<u>(1 250)</u>	<u>(1 500)</u>	<u>(1 750)</u>
Gross Profit	600	700	750
Other operating costs	<u>(550)</u>	<u>(640)</u>	<u>(700)</u>
Operating Profit	50	60	50
Interest from credit sales	45	60	90
Interest payable	<u>(25)</u>	<u>(60)</u>	<u>(110)</u>
Profit before taxation	70	60	30
Tax payable	<u>(23)</u>	<u>(20)</u>	<u>(10)</u>
Profit for the year	<u>47</u>	<u>40</u>	<u>20</u>

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

	2019	2020	2021
	\$m	\$m	\$m
Property, Plant & Equipment	278	290	322
Inventories	400	540	620
Trade receivables	492	550	633
Cash	<u>12</u>	<u>12</u>	<u>15</u>
	<u>1 182</u>	<u>1 392</u>	<u>1 590</u>

Share capital	90	90	90
Reserves	<u>282</u>	<u>290</u>	<u>282</u>
	372	382	372
Bank loans	320	520	610
Other interest bearing borrowing	200	200	320
Trade payables	270	270	280
Tax payables	<u>20</u>	<u>20</u>	<u>8</u>
	<u>1 182</u>	<u>1 390</u>	<u>1 590</u>

Other Information

• Depreciation charged for the three years in question was:			
Year ended 31 December	2019	2020	2021
	\$	\$	\$

- 55 60 70
- The other Interest bearing borrowings are secured by a floating charge over the assets of Indigino Pvt. Ltd. Their repayment is due on 31 December 2021.
 - Dividends of \$30m were paid in 2019 and 2020. A dividend of \$20m has been proposed.
 - The bank loans are unsecured. The maximum lending facility the bank will provide is \$650m.
 - Over the past three years the level of credit sales has been:
- | | | | |
|------------------------|-------------|-------------|-------------|
| Year ended 31 December | 2019 | 2020 | 2021 |
| | \$ | \$ | \$ |
| | 300 | 400 | 600 |

The entity offers extended credit terms for certain products to maintain market share in highly competitive environment.

Given the steady increase in the level of bank loans which has taken place in recent years, the entity has recently written to its bankers to request an increase on the lending facility. The request was received by the bank on 15 March 2022; two weeks after the financial statements were published.

The bank is concerned at the steep escalation on the level of the loans and has asked for a report on the financial performance of Indigino Pvt. Ltd. for the last 3 years.

Required

As a consultant management accountant employed by the bankers of Indigino Pvt. Ltd. prepare a report to the bank which analyses the financial performance of the company for the period covered by the financial statements. Your report may take any form you wish, but you are aware of the particular concern of the bank regarding the rapidly increasing level of lending. Therefore it may be appropriate to include aspects of prior performance that could have contributed to the increase in the level of bank lending.

Question 2(20 marks)

- (a) Using an example of an enterprise you know of, explain what is meant by the term break-even quantity. **(10 marks)**
- (b) Explain the need for accurate costing information in decision making. **(10 marks)**

Question 3(20 marks)

Based on your understanding of budgets, do you think it is wise for any organisation to operate without a budget? Discuss expansively on your answer. **(20 marks)**

Question 4(20 marks)

A company makes and sells a single product. The selling price is \$12 per unit. The variable cost of making and selling the product is \$9 per unit and fixed costs per month are \$240,000. The company budgets to sell 90,000 units of the product a month.

Required

- (a) What is the budgeted profit per month? **(5 marks)**
- (b) What is the breakeven point in sales? **(5 marks)**
- (c) What is the margin of safety? **(5 marks)**
- (d) What must sales be to achieve a monthly profit of \$120,000? **(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)

Discuss the importance of at least five qualitative characteristics of financial information in assisting potential shareholders and management in making informed decisions in running organizations.

End of Examination Paper