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 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)

Quartile sells jewellery through stores in retail shopping centres throughout the country. Over the last two years it has experienced declining profitability and is wondering if this is related to the sector as whole. It has recently subscribed to an agency that produces average ratios across many businesses. Below are the ratios that have been provided by the agency for Quartile's business sector based on a year end of 30 June 2021.

Return on year-end capital employed (ROCE)	16·8%
Net asset (total assets less current liabilities) turnover	1·4 times
Gross profit margin	35%
Operating profit margin	12%
Current ratio	1·25:1
Average inventory turnover	3 times
Trade payables' payment period	64 days
Debt to equity	38%

The financial statements of Quartile for the year ended 30 September 2021 are:

Income statement

	$'000	$'000
Revenue		56,000
Opening inventory	8,300	
Purchases	43,900	

	52,200	
Closing inventory	(10,200)	(42,000)
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Gross profit		14,000
Operating costs		(9,800)
Finance costs		(800)

Profit before tax		3,400
Income tax expense		(1,000)

Profit for the year		2,400

Statement of financial position

	$'000	$'000
Assets		
Non-current assets		
Property and shop fittings		25,600
Deferred development expenditure		5,000

		30,600
Current assets		
Inventory	10,200	
Bank	1,000	11,200
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Total assets		41,800

Equity and liabilities		
Equity		
Equity shares of $1 each		15,000
Property revaluation reserve		3,000
Retained earnings		8,600

		26,600
Non-current liabilities		
10% loan notes		8,000
Current liabilities		
Trade payables	5,400	
Current tax payable	1,800	7,200
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Total equity and liabilities		41,800

Note: The deferred development expenditure relates to an investment in a process to manufacture artificial precious gems for future sale by Quartile in the retail jewellery market.

Required:

(a) Prepare for Quartile the equivalent ratios that have been provided by the agency.

(**15 marks**)

(b) Assess the financial and operating performance of Quartile in comparison to its sector averages. (**15 marks**)

(c) Explain four possible limitations of the usefulness of the above comparison.

(**10 marks**)

Question 2(20 marks)

A company has fixed costs of $300,000 and produces one product with a selling price of $72.00 and a variable cost of $42.00 per unit. The maximum factory capacity is 20,000 units and it anticipates selling 15,000 units.

(a) Construct a break-even chart showing the break-even point and the margin of safety at present. Fully label your diagram. (**10 marks**)

How much profit will they make?

(b) at the present level of operation? (**5 marks**)
(c) if sales increase to the maximum that the factory can supply? (**5 marks**)

Question 3 (20 marks)

XYZ Ltd is preparing budget for the year ended 31December 2021.
The company manufactures and sells one product. The selling price is $150 per unit but this will increase to $160 as from 1 July 2021. The budgeted sales volumes are:

	Units
January to March	40,000
April to June	50,000
July to September	30,000
October to December	45,000

Sales for January to March 2022 are expected to be 40,000 units

Each unit of products uses 3 units of Component A, 2 units of Component B and 1 unit of Component C, the current unit price of which are as follows:

	$
ComponentA	9
ComponentB	6
ComponentC	25

Component A and B are expected to increase in price by 10% from 1 April 2021. Component C will rise by 5% from the same date. Labour costs for the product are $30 per unit, this will increase by 5% from 1 October 2021

Variable production overhead will be $10 per unit. Fixed production overhead is budgeted at $264,000 for the year and incurred evenly over each period

Stock of finished units is budgeted at 20% of the next three month period's sales. No stock of components are held.

Required:

Prepare the following budgets for XYZ Ltd for each of the four three-month periods of 2021

(a) Sales budget (in $ and units) **(5 marks)**

(b) Production budget (in units) **(5 marks)**

(c) Component usage budget(in units) **(5 marks)**

(d) Production cost budget(in$'000) **(5 marks)**

Question 4(20 marks)

(a) What is the principal budget factor and give 6 examples and why must it be identified **(5marks)**
(b) Give 4 criticisms of traditional budgetary control process **(5marks)**
(c) Describe 4 benefits to be gained from a system of Budgetary Control **(5marks)**
(d) In a manufacturing company, state five functional budgets and suggest the Manager responsible for the preparation of each one **(5 marks)**

Question 5(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.

Question 6(20 marks)

(a) "Management Accounting provides immense help in management decision making" Elaborate. (**10 marks**)

(b) Explain the basic accounting concepts and conventions in financial accounting. (**10 marks**)

End of Examination Paper