



“Investing in Africa’s future”

COLLEGE OF HEALTH, AGRICULTURE AND NATURAL SCIENCES

NAEC505: FINANCIAL ACCOUNTING

END OF SECOND SEMESTER FINAL EXAMINATIONS

MAY/JUNE 2020

LECTURER: DR W. MATAMANDE

DURATION: 48 HRS

INSTRUCTIONS

1. Choose and Answer **ONE** question Only
2. Do not write your name on the answer sheet
3. All Questions Carry Equal Marks (100)
4. Credit is given for Neat Presentation

INSTRUCTION TO CANDIDATES

ANSWER ONE QUESTION, EACH QUESTION CARRIES 100 MARKS

Question 1 (100 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 and classify the important ratios to satisfy various stakeholders. (15 marks)
- (iii) Report 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)
- (c) From the information presented prepare the operating activities section of the statement of cash flows. (20 marks)
- (d) Comment on the management of cash by Bouncy Pvt. Ltd. (15 marks)
- (e) “It has been argued that 'profit' does not always give a useful or meaningful picture of a company's operations. Readers of a company's financial statements might even be misled by a reported profit figure”. Discuss the cause of the main differences between reported profit and the cash available for use. Give concrete examples. (20 marks)

Question 2(100 marks)

(a)

The statement of financial position of Radar Pvt. Ltd. at 30 September were as follows;

	20 1 8		20 1 9	
Non- current assets	\$000	\$000	\$000	\$000
Property, plant and equipment at cost	760		920	
Less accumulated depreciation	(288)		(318)	
		472		602
		186		214
Investments				
Current Assets				
Inventory	596		397	
Trade receivables	332		392	
Bank	<u>5</u>	<u>933</u>	<u>-</u>	<u>789</u>
Total assets		<u>1,591</u>		<u>1,605</u>
Capital and reserves				
Ordinary shares	350		500	

Share premium	75		125	
Retained earnings	<u>137</u>	562	<u>294</u>	919
Noncurrent liabilities				
12% debentures		400		100
Current liabilities				
Trade payables	478		396	
Accrued expenses	64		72	
Taxation	87		96	
Overdraft	-		22	
		<u>629</u>		<u>586</u>
Total equity and liabilities		<u>1,591</u>		<u>1,605</u>

The following information is available

- An impairment review of the investments disclosed that there had been an impairment of \$20, 000.
- The depreciation charge made in the statement of comprehensive income was \$64, 000.
- Equipment costing \$72,000 was sold for 54,000 which gave a profit of \$16 000.
- The debentures redeemed in the year were redeemed at a premium of 25%.
- The premium paid on the debentures was written off to the share premium account.
- The income tax expenses was \$ 92, 000.
- A dividend of \$25,000 had been paid and dividends of \$17,000 had been received.

Required

Prepare a statement of cash flows for the year ended 30 September using the indirect method.
(20 marks)

- (b) The management of any enterprise may put considerable emphasis on the cash flow effects of its decisions and actions, monitoring these with the internal reporting system. Cash flow information is also relevant to those with external interests in the enterprise.

Required

- (i) Discuss the importance of cash flow information for both internal and external decisions.
(15 marks)
- (ii) What internal and external user needs does cash flow reporting satisfy? (10 marks)
- (c) From the information given of Radar Pvt. Ltd Calculate and classify the important ratios to satisfy various stakeholders.
(15 marks)
- (d) Comment on the management of cash by Radar Pvt. Ltd.
(20 marks)

(e) Discuss the use of ratio analysis in assessing company performance.

(20 marks)

Question 3 (100 marks)

The following information relates to a newly formed company.

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 $\frac{1}{2}$ month & overheads 1 month.

Assume cash sales to 50% of total sales

Required:

- (a) Prepare a cash budget for the first six months (20 marks)
- (b) Discuss the comment “....good budgeting relies on trust”. (5 marks)
- (c) A budget is forward looking and therefore managers are expected to invest much of their time in such exercises. Discuss the salient features of budgets that make it very important. (20 marks)
- (d) Discuss and distinguish between a statement of cashflows and cash budget. (10 marks)
- (e) Calculate the break-even points for the six months provided given that 500 items are sold each month. (20 marks)

- (f) For each month determine the sales volume that would earn the company a profit of \$18 000.
(15 marks)
- (g) What sales value should the firm make to earn a profit of \$24 000 for the January and February?
(5 marks)
- (h) By what percent should the firm increase its sales volume over that in (f) in order to earn a profit of \$30 000 after tax for March and April?
(5 marks)

END OF EXAMINATION PAPER