



# National University of Science and Technology

## FACULTY OF COMMERCE

### DEPARTMENT OF ACCOUNTING

**SECOND SEMESTER SUPPLEMENTARY EXAMINATION: 2012**

**DATE: JUNE 2012**

**SUBJECT: ACCOUNTING 2B: CAC 2206**

**TIME ALLOWED: THREE HOURS**

**MARKS: 100**

### **INFORMATION FOR CANDIDATES**

1. Answer **all** questions
2. All workings should be shown
3. Begin each Full question on a new page
4. All answers should be presented in good style

**Question 1[25 marks]**

The following statement has been produced for presentation to the general manager of Department Z.

	<b>Month ended 31 October 2011</b>		
	<b>Original budget</b>	<b>Actual results</b>	<b>Variance</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Sales	<u>600 000</u>	<u>550 000</u>	<u>(50 000)</u>
Direct materials	150 000	130 000	20 000
Direct labour	200 000	189 000	11 000
Production overhead:			
Variable with direct labour	50 000	46 000	4 000
Fixed	25 000	29 000	(4 000)
Variable selling overhead	75 000	72 000	3 000
Fixed selling	<u>50 000</u>	<u>46 000</u>	<u>4 000</u>
Total costs	<u>550 000</u>	<u>512 000</u>	<u>38 000</u>
Profit	<u>50 000</u>	<u>38 000</u>	<u>(12 000)</u>
Direct labour hours	50 000	47 500	
Sales and production units	5 000	4 500	

Note: There are no opening and closing stocks.

The general manager says that this type of statement does provide much relevant information for him. He also thought that the profit for the month would be well up to budget and was surprised to see a large adverse profit variance.

**Required**

- a) Re-draft the above statement in a form relevant for the general manager showing the variances. **[17]**
- b) Produce a short report explaining the principles upon which your re-drafted statement is based and what information it provides. **[ 3]**
- c) In modern industry the value of flexible budgets in planning is dwindling discuss this statement. **[5]**

**Question 2 [25 marks]**

- a) State three different regulatory influences on the preparation of published accounts of quoted companies and briefly explain the role of each one [10]
- b) Comment briefly on the effectiveness of this regulatory system. [5]
- c) What are the listing requirements? (your answer should be in point form. [10]

**Question 3[25 marks]**

The Statement of Financial Position of Grand Ltd a wholesaler at 31 December 2010 and 2011 were as follows

		2010		2011
	\$	\$	\$	\$
Non Current Assets	126 000		162 400	
Less depreciation	<u>50 000</u>	76 300	64 000	98 400
Current Assets				
Stock	12 000		15 000	
Debtors	10 500		14 000	
Cash	<u>1 400</u>		<u>2 000</u>	
	23 900		31 000	
Current Liabilities				
Trade creditors	6 800		9 400	
Taxation	3 400		5 000	
Proposed dividend	4 000		6 000	
Working capital		<u>9 700</u>		<u>10 600</u>
		<u>86 000</u>		<u>109 000</u>
Equity and Liabilities				
Share capital		6 000		10 000
Share premium		1 000		3 000
Revaluation reserve				8 000
Retained income		<u>19 000</u>		<u>28 000</u>
		26 000		49 000
Long term liabilities				
Loans (payable in 2014)		<u>60 000</u>		<u>60 000</u>
		<u>86 000</u>		<u>109 000</u>

The stock at 31 December 2009 was \$10 000

The summarised Statement of Comprehensive Income for the years ended 31 December 2010 and 2011 were as follows:

	2010	2011
	\$	\$
Sales	64 000	108 000
Cost of sales	<u>40 000</u>	<u>75 600</u>
Gross profit	24 000	32 400
Expenses	<u>10 000</u>	<u>12 400</u>
Profit for the year	<u>14 000</u>	<u>20 000</u>

### Required

- a) Calculate the following accounting ratios for both years
- i. The gross profit percentage
  - ii. The current ratio and the quick ratio
  - iii. Debtors collection period in days
  - iv. Trade creditors' payment period in days (based on purchases figures which are to be calculated)
  - v. Gearing ratio
- Show full workings **[15]**
- b) Explain what you can deduce from the ratios as at 31 December 2011 and from comparing them with those for 2010. **[5]**
- c) State two points which could cause the movement in the gross profit percentages between the two years and explain how they could bring the change about. **[1]**
- d) State the extent to which you agree or disagree with the following and give brief reasons for your answers.
- i. The current ratio and the quick ratio help to assess whether a company is able to meet its debts as they fall due. Therefore the higher these ratios are the better placed the company is **[2]**
  - ii. A high gearing ratio is advantageous to shareholders because they benefit from the income produced by investing the money borrowed. **[2]**

**Question 4[25 marks]**

A company purchases a raw material from an outside supplier at a cost of \$18 per unit .The total annual demand for this product is 80 000 units and the following additional information is available:

Required annual return on investment in stocks	\$1.80	
Other holding costs	<u>\$0.20</u>	
Total holding cost per unit		\$2.00
Cost per purchase order		
Clerical costs, stationery, postage, telephones etc		\$4.00

**Required**

- a) Determine the economic order quantity using both the tabulation and the formula method if the order size is 200,400,600,800,1000,1200,1600 and 20 000 **[20]**
- b) What are the disadvantages of having excessive stock **[5]**

**END OF EXAMINATION PAPER**