



**NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**FACULTY OF INDUSTRIAL TECHNOLOGY**

**DEPARTMENT OF INDUSTRIAL AND MANUFACTURING ENGINEERING**

**Master of Engineering Degree in Manufacturing Systems/Engineering and Operations  
Management**

**FINANCIAL AND ACCOUNTING MANAGEMENT**

**EMBA 503**

**Second Semester Examination Paper**

**May 2015**

This examination paper consists of 9 pages

**Time Allowed:** 3 hours  
**Total Marks:** 100  
**Special Requirements:** Nil  
**Examiner's Name:** Mrs Florence Shumba

**INSTRUCTIONS**

1. Answer all four questions.
2. Start each question solution on new page.
3. Show all workings.

## QUESTION 1

The following information relates to Peter-Elephant PLc, a company operating in Zimbabwe. The Executive Director supplied you with the following information for you to take applicable action.

The market research has indicated that customers are likely to be strongly influenced by their perception of the company's commitment to a particular market and consequently the company must decide whether to serve the domestic market or the export market.

Last year's sales in the domestic market were:

Standard 1,200 units Premium 700 units and Deluxe 500 units

Cost and product data is:

	<b>Standard</b>	<b>Premium</b>	<b>Deluxe</b>
Labour hours per unit	1·8hrs	2·6hrs	3·2hrs
Material cost per unit	\$102	\$165	\$180
Selling price per unit	\$400	\$700	\$900

Labour costs are \$50 per labour hour and variable overheads are absorbed on a labour hour basis at a rate of \$40 per hour. Fixed costs are \$120,000 per annum.

### Required:

- (a) Calculate the profit which the company can expect from:
- (i) continuing to sell in the domestic market; and **[5 marks]**
  - (ii) entering the export market. **[7 marks]**
- (b) Draft a brief report to the Managing Director which discusses the options that are available to the company and highlights issues which should be considered before a final decision is made. **[13 marks]**

## QUESTION 2

Chocoholics Ltd sells high quality Belgian chocolates that it buys in ready-made. Its main attraction to customers is that it gift wraps the items and delivers them to an address of the customer's choice. The company has just expanded its product range to include flowers. You are an accounting technician and have been asked to prepare a cash budget for the next six months, incorporating the sales of the new products. You have been provided with the following table of estimated revenues and their relative costs. Other costs are also included in the notes below.

<b>2014</b>	<b>July</b>	<b>August</b>	<b>September</b>	<b>October</b>	<b>November</b>	<b>December</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Sales</b>	<b>250</b>	<b>266</b>	<b>282</b>	<b>306</b>	<b>320</b>	<b>330</b>
<b>Purchases Flowers &amp; chocolates</b>	<b>125</b>	<b>133</b>	<b>141</b>	<b>153</b>	<b>160</b>	<b>165</b>
<b>Admin expenses</b>	<b>55</b>	<b>60</b>	<b>62</b>	<b>65</b>	<b>68</b>	<b>70</b>
<b>Miscellan. expenses</b>	<b>6</b>	<b>6</b>	<b>7</b>	<b>7</b>	<b>18</b>	<b>8</b>
<b>Loan repayments</b>	<b>50</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>50</b>	<b>-</b>

### Notes

- (i) Opening inventories of chocolates and flowers will amount to \$250,000 at 1 July 2014. Closing inventories at 31 December 2014 are estimated at \$170,000.
- (ii) Suppliers allow one month's credit. Purchases in June will total \$60,000.
- (iii) 30% of sales are paid for by cash but the remaining 70% take advantage of the company's offer of 'Buy now, pay in one month'. June 2014 sales are expected to be \$140,000.
- (iv) Delivery costs are 1% of sales revenue each month, and are paid in the month in which they are incurred. Administration and miscellaneous expenses are also paid as they are incurred.
- (v) Packaging expenses are paid two months after they are incurred. These costs were \$1,000 in May and will be the same in June.
- (vi) The bank charges interest of 1% per month for the overdraft, calculated on the closing bank balance each month, and payable the following month.

- (vii) The bank overdraft at 1 July 2014 is expected to be \$155,000.
- (viii) The loan repayments above refer to an interest free loan obtained by the company when they moved their business to a new bank. The business has no depreciable fixed assets.

**Required:**

- (a) Prepare a monthly cash budget for EACH of the six months to 31 December 2014, showing the cash balance at the end of each month. **[13 marks]**
- (b) Prepare a budgeted (SOCI) Statement of Comprehensive Income for the six months period ending 31 December 2014. **[12 marks]**

**Note** All workings should be shown clearly in order to score maximum marks. Please show workings in \$'000, to the nearest \$'000.

**QUESTION 3**

Haruna Ltd operating in Zvishavane approached you with a request to advice on how to prepare a Cash Flows Statement for their company since they cannot afford an accountant to perform the work. They supplied you with the following information for the year ended 31 December 2014.

**HARUNA Ltd**  
**COMPREHENSIVE INCOME STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

<b>Sales</b>	<b>\$ 750 000</b>	
<b>Cost of sales</b>	<b>450 000</b>	
<b>Gross Profit</b>	<b>300 000</b>	
<b>Selling and administrative expenses</b>	<b>223 000</b>	
<b>Net Operating income/profit</b>	<b>77 000</b>	
<b>Non operating items</b>	<b>3 000</b>	
<b>Gain on sale of equipment</b>		
<b>Income before taxes</b>	<b>80 000</b>	
<b>Income taxes</b>	<b>24 000</b>	
<b>Net income</b>	<b>56 000</b>	

**Statement of Financial Position for the Years Ended 2013 and 2014**

	2013	2014
	\$	\$
<b>NON CURRENT ASSETS:</b>		
Property, plant	500 000	420 00
Less accumulated depreciation	(85 000)	(70 000)
<b>Net Non Current assets</b>	<b>415 000</b>	<b>350 000</b>
Long term investments	31 000	38 000
<b>CURRENT ASSETS:</b>		
Cash	4 000	11 000
Debtors	310 000	230 000
Inventory	160 000	195 000
Prepaid expenses	8 000	6 000
<b>TOTAL ASSETS</b>	<b>\$928 000</b>	<b>\$830 000</b>

EQUITY AND LIABILITIES:		
Capital	160 000	200 000
Net Profit	132 000	92 000
Total Capital/Equity	292 000	292 000
CURRENT LIABILITIES:		
Creditors	300 000	225 000
Accrued liabilities	70 000	80 000
Income taxes payable	71 000	63 000
Total current liabilities	441 000	368 000
Bonds payable	195 000	170 000
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>\$928 000</b>	<b>\$830 000</b>

During 2014 Haruna Ltd sold some equipment for \$ 18 000 that had cost \$ 30 000 and on which there was accumulated depreciation of \$10 000. In addition the company sold long term investment for \$12 000 that had cost \$ 7000 when purchased ten years ago. The company paid a cash dividend during 2014 amounting to \$50 000 and purchased its own shares amounting to \$40 000.

**Required:**

- (a) Using the indirect method calculate the net cash provided by operating activities. **[10 marks]**
- (b) Prepare a Statement of Cash flows for 2014 using the Direct method **[15 marks]**

## QUESTION 4

Chidion Ltd, a public limited company, has prepared its financial statements for the year ended 31 October 2012. The following information relates to those financial statements.

	<u>2012</u> <u>\$ 000</u>	<u>2011</u> <u>\$ 000</u>
Group revenue/Sales	250	201
Gross profit	45	35
Profit from operations	10	9
Profit before taxation	12	8
Net profit for the period	5	4
Non-current assets	42	36
Current assets	55	43
Current liabilities	25	24
Long-term loans	13	9
Capital and reserves	59	46

The company expects to achieve growth in retained earnings of about 20% in the year to 31 October 2012. Thereafter retained earnings are expected to accelerate to produce growth of between 20% and 25%. The growth will be generated by the introduction of new products and business efficiencies in manufacturing and in the company's infrastructure.

Chidion manufactures products from aluminium and other metals and is one of the largest producers in the world. Production for 2011 increased by 18% through the acquisition of a competitor company, increased production at three of its plants and through the regeneration of old plants. There has been a recent growth in the consumption of its products because of the substitution of aluminium for heavier metals in motor vehicle manufacture. Cost reductions

continued as a business focus in 2011 and Chidion has implemented a cost reduction programme to be achieved by 2014. Targets for each operation have been set.

Chidion's Directors feel that its pricing strategy will help it compensate for increased competition in the sector. The company recently reduced the price of its products to the motor vehicle industry. This strategy is expected to increase demand and the usage of aluminium in the industry. However, in spite of the environmental benefits, certain car manufacturers have formed a cartel to prevent the increased usage of aluminium in car production.

In the period 2011 to 2013, Chidion expects to spend around \$400 000 on research and development and investment in non-current assets. The focus of the investments will be on enlarging the production capabilities. An important research and development project will be the joint project with a global car manufacturer to develop a new aluminium alloy car body.

In January 2011, Chidion commenced a programme of acquisition of its own ordinary shares for cancellation. At 31 October 2011, Chidion had purchased and cancelled five million ordinary shares of \$1. In addition, a subsidiary of Chidion had 4 million of convertible redeemable loan notes outstanding. The loan notes mature on 15 June 2014 and are convertible into ordinary shares at the option of the holder. The competitive environment requires Chidion to provide medium and long- term financing to its customers in connection with the sale of its products. Generally the financing is placed with third-party lenders but due to the higher risks associated with such financing, the amount of the financing expected to be provided by Chidion itself is likely to increase.

The Directors of Chidion have attempted to minimise the financial risk to which the group is exposed. The company operates in the global market place with the inherent financial risk that this entails. The management have performed a sensitivity analysis assuming a 10% adverse movement in foreign exchange rates and interest rates applied to hedging contracts and other exposures. The analysis indicated that such market movement would not have a material effect on the company's financial position.

Chidion has a reputation for responsible corporate behaviour and sees the work force as the key factor in the profitable growth of the business. During the year the company made progress towards the aim of linking environmental performance with financial performance by reporting the relationship between the eco-productivity index for basic production, and water and energy costs used in basic production. A feature of this index is that it can be segregated at site and divisional level and can be used in the internal management decision-making process.

The Directors of Chidion are increasingly seeing their shareholder base widen with the result that investors are more demanding and sophisticated. As a result, the directors are uncertain as to the nature of the information which would provide clear and credible explanations of corporate activity. They wish their annual report to meet market expectations and not just the basic requirements of company law. They have heard that many companies deal with three key elements of corporate activity, namely reporting business performance, the analysis of the financial position, and the nature of corporate citizenship, and have asked your firm's advice in drawing up the annual report.

**Required:**

Draft a report to the Directors of Chidion Ltd setting out the nature of information which could be disclosed in annual reports in order that there might be better assessment of the performance of the company.

Candidates should use the information in the question and produce their report under the headings:

- |   |            |
|---|------------|
| (i) Reporting business performance                            | [10 marks] |
| (ii) Analysis of financial position refers to relevant ratios | [10 marks] |
| (iii) Purpose of financial statements, state each statement   | [5 marks]  |

Marks will be awarded for the presentation and style of the report.

**END OF EXAMINATION**