



National University of Science and Technology

FACULTY OF INDUSTRIAL TECHNOLOGY

DEPARTMENT OF INDUSTRIAL AND MANUFACTURING ENGINEERING

FIRST SEMESTER EXAMINATION: 2011/2012

DATE: DECEMBER 2011

SUBJECT: BUSINESS STUDIES III

COURSE CODE : TIE5105

TIME ALLOWED: THREE (3) HOURS

MARKS: 100

INFORMATION FOR CANDIDATES

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

QUESTION 1 [25 MARKS]

The following trial balances has been extracted from the books of Zizi on 31 December 2010.

| | Dr | Cr |
|--|----------------|----------------|
| | \$ | \$ |
| Opening inventory | 25,000 | |
| Purchases | 210,000 | |
| Sales revenue | | 310,000 |
| Administration expenses | 12,400 | |
| Wages | 41,000 | |
| Rent paid | 7,500 | |
| Telephone | 1,000 | |
| Interest paid | 9,000 | |
| Travel expenses | 1,100 | |
| Premises at cost | 200,000 | |
| Machinery at cost | 40,000 | |
| Sales ledger control | 31,000 | |
| Bank | 900 | |
| Cash | 100 | |
| Capital | | 150,000 |
| Drawings | 14,000 | |
| Loan from bank | | 100,000 |
| Purchases ledger control | | 29,000 |
| Value added tax | | 4,000 |
| Closing inventory: statement of comprehensive income | | 21,000 |
| Closing inventory:statement of financial position | 21,000 | |
| | 614,000 | 614,000 |

Required

Prepare the financial statements of Zizi for the year ended 31 December 2010. **[25]**

QUESTION 2 [25 marks]

- a) Identify the users of financial statements and discuss their objectives of financial analysis. **[10]**
- b) The value of the analysis of a firm's financial position can be reduced considerably as a result of limitations inherent in the financial statements. Discuss and evaluate this statement. **[5]**
- c) The IASC Framework was issued in 1989. The framework defined the four principal qualitative characteristics of financial statements. Identify and define these characteristics. **[10]**

QUESTION 3 [25 marks]

Study the following financial statements for two similar privately owned department stores which each comprise of one store in the city centre of a major Zimbabwean city and then answer the questions which follow.

| Summary of Financial Statements | | | | | |
|------------------------------------|---------|---------|--|---------|---------|
| Statement of Financial position | | A | | B | |
| | \$'000' | \$'000' | | \$'000' | \$'000' |
| Non current assets | | | | | |
| Building at cost | 300 | | | 440 | |
| Less Depreciation | -255 | | | -220 | |
| | | 45 | | | 220 |
| Equipment at cost | 140 | | | 180 | |
| Less Depreciation | -119 | | | -90 | |
| | | 21 | | | 90 |
| | | 66 | | | 310 |
| Current assets | | | | | |
| Stock | 200 | | | 240 | |
| Debtors | 205 | | | 140 | |
| Bank | 4 | | | 2 | |
| | 409 | | | 382 | |
| Less Current liabilities | | | | | |
| Creditors | -245 | | | -252 | |
| | | 164 | | | 130 |
| | | 230 | | | 440 |
| | | | | | |
| Financed by: | | | | | |
| Capital accounts | | 240 | | | 430 |
| Add Net profit | | 60 | | | 90 |
| | | 300 | | | 520 |
| Less Drawings | | -70 | | | -80 |
| | | 230 | | | 440 |
| | | | | | |
| Statement of Comprehensive Incomes | | | | | |
| Sales | | 1800 | | | 2700 |
| Less Cost of goods sold | | | | | |
| Opening stock | 300 | | | 280 | |
| Add Purchases | 1300 | | | 2250 | |
| | 1600 | | | 2530 | |
| Less Closing stock | -200 | | | -240 | |
| | | 1400 | | | 2290 |
| Gross profit | | 400 | | | 410 |
| Less Depreciation | 22 | | | 40 | |
| Other expenses | 318 | | | 280 | |
| | | 340 | | | 320 |
| Net profit | | 60 | | | 90 |
| | | | | | |

Required;

- a) Calculate the following ratios:
- i) Gross profit margin
 - ii) Net profit margin
 - iii) Expenses as a percentage of sales
 - iv) Stock turnover
 - v) Return on capital employed
 - vi) Current ratio
 - vii) Quick ratio
 - viii) Debtor: sales ratio
 - ix) Creditor: purchases ratio [15]
- b) Drawing upon your knowledge of financial analysis, comment upon the differences and similarities of the accounting ratios for A and B. Which business seems to be the most efficient? Justify your opinion. [10]

QUESTION 4 [25 marks]

- a) State and explain the purposes of a budget. [10]
- b) Explain the differences between zero based budgeting system and programme-planning budgeting systems [5]
- c) State and explain the advantages of zero based budgeting system. [5]
- d) Explain the benefits of involving the managers in the budget setting process (participative budgeting) rather than setting the budget centrally by top management. [5]