



National University of Science and Technology

FACULTY OF INDUSTRIAL TECHNOLOGY

DEPARTMENT OF INDUSTRIAL AND MANUFACTURING ENGINEERING

2nd SEMESTER MAIN EXAMINATION PAPER: 2013/2014
DATE: APRIL 2014
SUBJECT: BUSINESS STUDIES IV: FINANCIAL ANALYSIS: TIE 5205
TIME ALLOWED: THREE (3) HOURS
MARKS: 100

INSTRUCTIONS TO CANDIDATES

1. Answer ALL questions
2. Use the examination book provided
3. Use black or blue pen
4. Begin each question on a new page and
5. Submit all answer books

1. Roger borrowed a sum of \$58,000 from Sandra for business purposes. How will this affect the accounting equations? [1]

A Increase in asset and decrease in liability

B Increase in asset and increase in liability

C Decrease in asset and decrease in liability

D Decrease in asset and increase in liability

2. A provider of finance is keen to know which of the following information? [1]

(i) Profit or loss

(ii) Quality of goods supplied by the entity

(iii) Repayment capacity of loan principal

(iv) Ratio of interest to total expenditure

A (i) and (ii) **B** (iii) and (iv) **C** All of the above **D** None of the above

3. Which of the following will not appear in the SOFP? [1]

(i) Share capital (ii) Proprietor's capital (iii) Audit fees (iv) Debentures

A (ii) and (iii) **B** (iii) **C** (v) **D** (ii), (iii) and (iv)

4. Which of the following equations is correct? [1]

A Total assets – Total liabilities = Capital + Profit

B Total assets + Total liabilities = Capital – Profit

C Total assets – Total liabilities = Capital – Profit

D Total assets + Total liabilities = Capital + Profit

5. Max wants to calculate his profit at the year end. Which equation should he use? [1]

A Closing net assets + Drawings + Capital introduced – Opening net assets

B Closing net assets – Drawings + Capital introduced – Opening net assets

C Closing net assets – Drawings – Capital introduced – Opening net assets

D Closing net assets + Drawings – Capital introduced – Opening net assets

6. Which of the following items may appear in a company's statement of changes in equity? [1]

- (i) Unrealised revaluation gains
- (ii) Dividends paid
- (iii) Proceeds of equity share issue
- (iv) Profit for the period

- A** All of the above
- B** (ii), (iii) and (iv)
- C** (i), (iii) and (iv)
- D** (i), (ii) and (iv)

7. SOFP and SOCI are the two principal financial statements prepared by the companies.

With reference to these two financial statements, determine whether the following statements are correct. [1]

- (i) An asset is an amount owed by the business to someone else.
- (ii) The SOFP is a snapshot of assets, liabilities and capital held by the business at a particular moment.
- (iii) Capital is the amount that the business owes to its shareholders / owners.
- (iv) The SOCI is a record of the income and expenditure of a business over a period of time.

- A** All of the above
- B** (i)
- C** (ii),(iii) and (iv)
- D** (ii) and (iv)

8. Which of the following accounting concepts applies to accruals and pre-payments?[1]

A Entity concept **B** Dual aspect concept **C** Cost concept **D** Matching concept

9. Which of the following are the underlying assumptions of financial statements? [1]

- A** Relevance and reliability
- B** Financial capital maintenance and physical capital maintenance
- C** Accrual basis and going concern
- D** Prudence and conservatism

10. When entities prepare financial statements assuming that the business is a going concern, the assets included in the financial statements would be the amount of cash or cash equivalents:

- (i) paid or the fair value of the consideration given to acquire them at the time of their acquisition.
- (ii) that could currently be obtained by selling the asset in an orderly disposal.
- (iii) that would have to be paid if the same or an equivalent asset was acquired currently.

Which of the above mentioned are correct? [1]

- A** All of the above
- B** (i) and (ii)
- C** (ii) and (iii)
- D** (i) and (iii)

11. Which of the following is not a qualitative characteristic of financial reporting? [1]

- A** Reliability **B** Comparability **C** Going concern **D** Relevance

12. The accounting concept which requires that all transactions and events should be recognised as and when they occur (and not as and when money is received or paid) and recorded in the financial statements of the periods to which they relate, is the: [1]

- A** Materiality concept **B** Prudence **C** Consistency concept **D** None of the above

13. Which of the following statement(s) is/are not correct? [1]

- (i) The Framework is a financial reporting standard.
(ii) In the case of conflict between the Framework and a reporting standard, the Framework will prevail over the reporting standard.
- A** (i) **B** (ii) **C** (i) and (ii) **D** None of the above

14. The effect of the concept of accruals is that: [1]

- A** Items which are similar should be accounted for in a similar way from one accounting period to the next
B Losses should be provided for as soon as they are foreseen
C Net profit is the difference between revenues and expenses arising during the accounting period
D None of the above

15. If \$1,000 prepaid rent was incorrectly recorded as accruals, net profit is : [1]

- A** Overstated by \$2,000 **B** Overstated by \$1,000 **C** Understated by \$2,000 **D** Understated by \$1,000

16. A company owns a number of properties which have been rented to tenants. The following information is available for the year ended 30 June 2013:

	Rent in advance	Rent in arrears
	\$	\$
30 June 2012	134,600	4,800
30 June 2013	144,400	8,700

Cash received from the tenants for the year ended 30 June 2013 was \$834,600. All rent in arrears was subsequently received.

What figure should appear in the company's SOCI for rent received for the year ended 30 June 2013? [2]

17. A company has sublet part of its offices. In the year ended 30 November 2011 the rent receivable was:

Until 30 June 2011 \$8,400 per year
From 1 July 2011 \$12,000 per year

Rent was paid quarterly in advance on 1 January, April, July, and October each year.

What amounts should appear in the company's financial statements for the year ended 30 November 2011? [2]

SOCI Rent receivable

SOFP

- | | |
|-------------------|-------------------------------|
| A \$9,900 | \$2,000 in sundry payables |
| B \$9,900 | \$1,000 in sundry payables |
| C \$10,200 | \$1,000 in sundry payables |
| D \$9,900 | \$2,000 in sundry receivables |

18. The following information is available for Orset, a sole trader who does not keep full accounting records:

	\$
Inventory 01/07/20X7	138,600
30/06/20X8	149,100
Purchases for year ended 30/06/ 20X8	716,100

Based on these figures, what is Orset's sales figure for the year ended 30 June 20X8, if the gross profit on sales is 30%? [2]

19. A company sublets part of its office accommodation. In the year ended 30 June 2013 cash received from tenants was \$83,700.

Details of rent in arrears and in advance at the beginning and end of the year were:

	In arrears \$	In advance \$
30/06/2012	3,800	2,400
30/06/2013	4,700	3,000

All arrears of rent were subsequently received.

What figure for rental income should be included in the company's SOCI for the year ended 30 June 2013? [2]

20. D has a small business. He does not maintain full accounting records. The following details are available about the credit customers and suppliers for the year ended 31 December 2013:

	\$
Trade receivables, 31 December 2012	32,500
Trade payables, 31 December 2012	15,000
Cash received from customers	171,600
Cash paid to suppliers	75,700
Discounts allowed	350
Discounts received	740
Contra between payables and receivables ledgers	500
Trade receivables, 31 December 2013	45,250
Trade payables, 31 December 2013	21,000

What figure should appear in D's SOCI for the year ended 31 December 2013 for sales? [3]

21. A company's gross profit percentage on sales has decreased by 5% in 2013 compared with 2012.

Which one of the following matters could have caused the decrease? [1]

- A The level of sales in 2013 is lower than that of 2012.
- B There have been more bad debts in 2013 than in 2012.
- C Inventory at the end of 2013 is lying unused in inventory.
- D The theft of inventory has increased.

22. Which of the following relationships is correct? [1]

- A Prepaid expense-current asset : Accrued expense – current liability
- B Pre-paid expense –current liability: Accrued expense- current asset
- C Accrued expense- current asset: Pre-received income – current asset
- D None of the above

23. A non-current asset is:

- (i) An asset whose value remains constant throughout its life.
- (ii) An asset which is expected to have a life of atleast 3 years.
- (iii) An asset whose expected life exceeds more than one accounting period and is used for business purpose, to earn profits.
- (iv) A tangible asset whose life is expected to exceed one accounting period.

Which of the above mentioned statement(s) is / are true? [1]

A All the above B (iii) and (iv) C (iii) D None of the above

24. Which of the following will appear on the face of a company's statement of changes in equity? [1]

- (i) Surplus on revaluation of non-current assets
- (ii) Share premium
- (iii) Profit for the financial year

A All of the above B (ii) and (iii) C (i) and (iii) D (i) and (ii)

25. An SOCF consists of which of the following items? [1]

- (i) Interest received
- (ii) Proceeds of the issue of shares
- (iii) Dividends received
- (iv) Proposed dividends

A (i), (ii) and (iii) B (ii), (iii) and (iv) C (i) and (ii) D (ii) and (iv)

26. State which of the following statements about the statement of cash flows is correct? [1]

- A A revaluation of a non-current asset will not affect cash flows
- B A profit on disposal of non-current assets will cause an increase in cash from operating activities

27. Share premium is shown in the SOFP under: [1]

A Share capital B Reserves C Current liabilities and provisions D Investments

28. Which of the following is a cash equivalent? [1]

- A Shares in a listed company
- B Debentures in a listed company (maturing after three years)
- C Commercial paper (maturing in one month)
- D Investment in associates

29. Baker's Corner is a bakery. Which of the following items will be classified as an operating activity? [1]

- (i) Sale of cakes on credit
- (ii) Sale of cakes for cash
- (iii) Collection from credit customers
- (iv) Sale of computers for cash
- (v) Wages to workers

A (i), (ii), (iii) and (iv)
B (i), (ii), (iii) and (v)
C (ii), (iii), (iv) and (v)
D (i), (ii), (iii), (iv) and (v)

30. Which of the following items could appear in a company's SOCF? [1]

- (i) Proposed dividends

- (ii) Rights issue of shares
- (iii) Bonus issue of shares
- (iv) Repayment of loan

A (i) and (ii) **B** (ii) and (iv) **C** (i) and (iv) **D** (ii) and (iii)

31. Should transfer to various reserves from retained earnings be shown on the face of an entity's SOCI (income statement)? [1]

- A** Yes
- B** No

32. If the opening inventory is overstated, the profit will be [1]

A Cancelled **B** Understated **C** Overstated **D** Unchanged

33. Monica, after graduating from an Arts college, set up a new business. Her books of accounts recorded the following balances:

Initial capital introduced	\$15,000
Bank overdraft	\$20,000
Vehicle	\$16,000

Her only other asset is office furniture. She has no other liabilities.

What is the book value of her office furniture? [1]

34. The following is the statement of financial position as at 31.12.2013 of Ikeo Ltd.

	\$
Plant and machinery	70,000
Bank overdraft	35,000
Trade payables	125,000
Trade receivables	380,000
Cash	35,000
Prepayments	26,000
Accruals	18,000
Allowance for receivables	22,000
*Loan repayment on 31/12/2015	110,000

* Half of the loan would be repaid before the end of the reporting date.

What are Ikeo Ltd's net current assets at the year end? [2]

35. A limited liability company has the following balances:

	\$
Property, plant and equipment	20,000
Cash in bank	10,000
Bank overdraft	15,000
Term loan	35,000
Receivables	11,000
Payables	19,000

What is the amount of capital in the business?

[2]

36. Calculate the cash balance from the following information: [2]

	\$		\$
Share capital	50,000	Trade payables	6,000
Share premium	8,000	Accrued expenses	2,000
Retained earnings	5,000	Inventory	25,000
Debentures	10,000	Cash	?

37. Calculate the gross profit on sales from the following information:

[2]

	\$		\$
Sales	150,000	Supplier's closing balance	15,000
Opening inventory	20,000	Closing inventory	20,000
Cash purchases	30,000	Supplier's opening balance	10,000
Goods return to suppliers	5,000	Purchase expenses	3,000
Cash paid to suppliers	50,000	Selling expenses	7,500

38. Which of the following is not a selling and distribution expenditure?

[1]

- A** Running and maintenance cost of the delivery vehicle
- B** Salary paid to people in the sales department
- C** Advertisement expenditure
- D** Cost of primary packing

39. Jennifer is preparing her year end accounts. She has to deal with a pre-payment for rent that is included in the rent expense, appearing in the trial balance.

Which of the following statements are correct?

[1]

- A** The pre-payment will increase the charge in the SOCI.
- B** The pre-payment will reduce the charge in the SOCI.
- C** The pre-payment has no effect on the SOCI.
- D** The pre-payment will only affect the SOCI.

40. The SOCI of Max Ltd shows a sale for \$120,120 with a mark-up of 20% on cost of sales.

What is the gross profit margin on the sales?

[1]

A 20% **B** 16.67% **C** 25% **D** None of the above

41. The following information has been extracted from the books of S Ltd, a limited liability company, asat 31 December 2011.

Ref		Dr	Cr
		\$'000	\$'000
A	Cash	32	
B	Inventory at 01/01/2010	400	
C	Energy expenses	356	
D	Wages and salaries	752	
F	Discounts received		65
G	Share premium account		800
H	Retained earnings at 01/01/2010		115
I	Sales revenue		4,565
J	Land	1,250	
K	Bank		94
L	Returns inward	95	
M	Trade payables		190
N	Trade receivables	124	
O	Purchases	4,370	
P	Repair and maintenance	250	
Q	Share Capital. (Ordinary shares\$1 each)		1,800
		7,629	7,629

(i) Calculate the current ratio for S

A 3.40 **B** 5.08 **C** 4.02 **D** 3.10

[2]

(ii) Calculatethe quick ratio for S.

[2]

A 3.40 **B** 0.68 **C** 0.55 **D** 0.82

(iii) Based on the ratios calculated above, we can interpret that:

[2]

- (1) Company`s management is efficient in fund management
- (2) Liquidity conditions suggest that company is not performing well.
- (3) Saturn`s fund management strategy is inefficient.
- (4) Both the ratios are in tune with standard requirements

A 1 & 4 **B** 2 & 3 **C** 3 **D** 1

42. Z Ltd has a 7% return on total assets of \$450,000 and an operating profit margin of 5%.

Calculate the sales of the company.

[2]

A \$630,000 **B** \$321,428 **C** \$472,500 **D** \$1,500,000

43. Which of the following would not improve the current ratio?

[2]

- (i) Borrow short term loan to finance purchase of fixed assets.
- (ii) Issue long-term loan to purchase inventories.
- (iii) Sell inventory to reduce current liabilities.
- (iv) Dispose the fixed assets in order to reduce accounts payable.

A All the above **B** (i) **C** (i), (iii) and (iv) **D** (iv)

44. The financial statements of P Ltd show that the gross profit margin has not changed in comparison to the previous year. However the net profit margin has declined considerably over the period.

Which of the following could be the reason for the decline in net profit margin?

[1]

- (i) The cost of goods sold has increased, whereas the sale price has remained constant.
- (ii) The finance cost has increased in comparison to the last year.
- (iii) The tax authorities have increased the tax rate.
- (iv) The company has declared dividends during the year.

A (i) **B** (iv) **C** (ii) and (iii) **D** none of the above

45. Which of the following statement(s) is / are correct?

[1]

- (i) A lower receivables turnover is always desirable.
- (ii) An increase in net profit margin without any change in revenue or assets indicates a weaker return on investments (ROI).
- (iii) The interest coverage ratio will be lower if the tax rate of the firm is higher.
- (iv) The lower the total debt-to-equity ratio, the lower the financial risk for a firm.

A All of the above **B** (iii) **C** (ii) and (iii) **D** (iv)

46. Which of the following factors would result in higher gearing?

[1]

- (i) an upward revaluation of non-current assets.
- (ii) a bonus issue of shares to the existing shareholders.
- (iii) obtaining long term loan to finance purchase of non-current assets.

A All of the above **B** (i) and (ii) **C** (i) **D** (iii)

47. The following would result in the increase in the gearing ratio of the company:

[1]

- (i) The decrease in long term loans is less than the decrease in the equity capital.
- (ii) The increase in long term loans is less than the increase in the equity capital.
- (iii) The interest rates in the markets rise.
- (iv) The company declares dividends during the year.

A (i) **B** (ii), (iii) and (iv) **C** (ii) **D** none of the above

48. The net accounts receivable were \$250,000 as of 31 December, 2012, and \$300,000 as of 31 December, 2013. Net cash sales for 2013 were \$100,000. The receivable days for 2013 were 73 days.

What were the company's total net sales for 2013? (Assume 365 days in a year) [2]

- A \$1,500,000
- B \$1,475,000
- C \$1,375,000
- D \$1,250,000

49. Greenwood Ltd has issued 4,500,000 equity shares at \$10 each. The following is the data provided for Greenwood Ltd:

Dividends	\$4,500,000
Market price per share	\$20
Earnings per share	\$5

The dividend per share, dividend yield will be: [2]

	Dividend per share	Dividend yield
A	\$10	5%
B	\$1	25%
C	\$1	5%
D	\$1	20%

50. The following information is provided for Saturn Ltd:

	\$'000
Cost of good sold	12,000
Average inventory	4,000
Net sales	16,000
Average receivables	6,000
Net income	2,000

Calculate the inventory turnover ratio. [2]

- A** 4.00 times **B** 2.67 times **C** 3.50 times **D** 3.00 times

51. Below are the extracts of Zodiac Ltd's SOFP and SOCI (income statement):

SOFP as at 30 June 2014	
	\$m
Non-current assets	13
Current assets	17
	30
Ordinary share capital	9
Share premium account	6
Retained earning	5
Total equity and reserves	20
10% Loan notes	5
Current liabilities	5
	30

SOCI (Income Statement) for the year ended 30 June 2014

Operating profit	10
Finance costs	(5)
Profit for the year	5

Using the information, choose the correct calculation of return on total capital employed (ROCE)? (Tax ignored) [1]

- A $5/20 = 25\%$
- B $10/20 = 50\%$
- C $5/25 = 20\%$
- D $10/25 = 40\%$

52. A company's gearing ratio would go down if the: [1]

- A market interest rates goes up
- B number of shareholder of company's increases
- C decrease in long-term loans is less than a decrease in equity for the company
- D decrease in long-term loans is more than a decrease in equity for the company

53. On 31 December 2009, Silicon Ltd, a pharmaceutical co extracted following details from its SOFP.

	\$/000
Inventories	2,500
Receivables	650
Bank overdraft	50
Payables	800

From the above information, one of its executive of the company prepared a report on liquidity position of company. Current ratio of a similar company working in the same industry is 2.1:1.

Which of the followings can be a possible result from his report? [1]

- A Liquidity is well controlled, because its quick assets are more than its current liabilities.
- B Liquidity is poorly controlled, because its current ratio is significantly higher.
- C Liquidity is poorly controlled, because it has a bank overdraft which less than payables figure.
- D Liquidity is well controlled, because the current assets are much more than current liabilities.

54. Fox Sports Entertainment Ltd's income statement for the year ended 31 December 2009 showed thefollowing:

	\$'000
Operating profit	2,200
Interest	400
Profit before tax	1,800
Income tax	600
Profit for the period	1,200

Its SOFP extracts at 31 December 2008 showed the following:

	\$'000
Share capital	7,000
Retained earnings	1,000
	8,000
10% debenture	2,000
	10,000

From the above what is the return on average capital employed (ROCE) for the year ended 31 December 2009 for the company? [2]

- A 11.54%
- B 10.71%
- C 07.69%
- D 12.00%

55. Mr Robert is a vendor of cotton goods. On 31 Dec 2013, he extracted the following information from the income statement of his business.

	\$	\$
Sales		105,000
Opening inventory	10,000	
Add: Purchases	75,000	
Less: Closing inventory	(18,200)	(66,800)
Gross profit		38,200

Calculate the inventory turnover ratio for his business for the year end 2013? [1]

- A 2.71 times
- B 7.44 times
- C 1.30 times
- D 4.74 times

Using the information given below attempt Q 56, Q 57 and Q 58

Pioneer services Ltd extracted the following information from its SOFP as on 31 December 2012.

Assets	\$
Non-current assets:	
Land and building	500,000
Current assets:	
Inventory	80,000
Trade receivables	220,000
	800,000
Equity and liabilities	
Equity	120,000
Non-current liabilities	
Secured loans	240,000
Current liabilities:	
Trade payables	150,000
Bank overdraft	290,000
	800,000

Additional information: Sales and purchases for the year are \$500,000 and \$350,000 respectively. Assume 365 days in a year.

56. Calculate the inventory turnover days and receivable days [2]

	Inventory turnover days	Receivable days
A	83 days	229 days
B	161 days	58 days
C	58 days	161 days
D	229 days	83 days

57. Calculate the quick ratio and current ratio [2]

	Quick ratio	Current ratio
A	0.50	0.68
B	0.25	0.72
C	0.65	1.20
D	1.20	0.30

58. Based on the ratios calculated above, which of the following statement / s are true [2]

- (i) The credit policy in the company is lenient.
- (ii) The company will not be in a position to pay its liabilities on the due date.
- (iii) The company is highly liquid.
- (iv) The company has a shorter working capital cycle.

- A (i) and (ii)
- B (i), (ii) and (iii)
- C (i) and (iv)
- D (i) and (iii)

59. Nice-look Ltd manufactures and sells various cosmetic products in the Zimbabwean market. Nice-look's perfumes, namely Jasmine, Rose and Sandal, are famous amongst ladies of all the ages. The following information is related to the budgeted sales for quarter January – March 2014.

Product	Units	Contribution per unit \$	Total contribution \$
Jasmine	750	12	9,000
Rose	800	13	10,400
Sandal	675	11	7,425
Total	2,225		26,825

The following is the actual result obtained for each product in the quarter:

Product	Units	Contribution per unit \$	Total contribution \$
Jasmine	700	14.40	10,080.00
Rose	900	12.50	11,250.00
Sandal	650	11.25	7,312.50
Total	2,250		28,642.50

The estimated total market for perfumes in a period of three months was 22,250 units. However, the actual total market for perfumes increased to 25,000 units for this quarter.

Required:

- (a) Calculate the total market size variance and market share variance. [5]

The following additional details related to the production of Jasmine are available.

Actual material and labour hours used to produce 700 units of Jasmine are as follows:

	\$
32,550 ml of material	78,120
1,400 hours of direct labour	14,700
Selling price per unit	147

Standard selling price and cost data for one unit of Jasmine is as follows:

Direct material	45ml at \$2.50per ml
Direct labour	90 minutes at \$14 per hour
Selling price	\$145.50

(b) Calculate the following variances for the product Jasmine:

- (i) Sales variances [3]
 - (ii) Material variances [3]
 - (iii) Labour variances [3]
- (c) Explain the three key purposes of a budgeting system. [6]

END OF EXAMINATION PAPER