

BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE
ACCOUNTANCY DEPARTMENT

NOV 2023

PROGRAMS

BACHELOR OF ACCOUNTING HONOURS DEGREE

BACHELOR OF SCIENCE HONOURS DEGREE IN ECONOMICS

BACHELOR OF SCIENCE HONORS DEGREE IN POLICE AND SECURITY STUDIES

BACHELOR OF BUSINESS STUDIES HONOURS DEGREE IN MARKETING

BACHELOR OF BUSINESS STUDIES HONOURS DEGREE IN BANKING AND FINANCE

BACHELOR OF BUSINESS STUDIES HONOURS DEGREE IN HUMAN CAPITAL MANAGEMENT

BACHELOR OF SCIENCE HONOURS DEGREE IN INFORMATION TECHNOLOGY

BACHELOR OF SCIENCE EDUCATION IN FINANCIAL MATHEMATICS

BACHELOR OF BUSINESS ADMINISTRATION, POLICE AND SECURITY STUDIES HONOURS
DEGREE

BACHELOR OF COMMERCE HONOURS DEGREE IN FINANCIAL INTELLIGENCE

COURSE: FINANCIAL ACCOUNTING 1B (AC107)

DURATION: 3 HOURS

INSTRUCTIONS TO CANDIDATE

- (i) Answer all questions.
 - (ii) Only use of non-programmable silent hand-held calculators is permitted.
 - (iii) Cell phones are not allowed into the examination room.
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SECTION A (30 MARKS, 2 MARKS PER QUESTION)

1. Two basic measures of liquidity are:
 - A. Inventory turnover and Current ratio
 - B. Current ratio and Quick ratio
 - C. Gross Profit ratio and Operating ratio
 - D. Current ratio and Average Collection period
2. Current Ratio is:
 - A. Liquid Assets/Current Assets
 - B. Non-current Assets/Current Assets
 - C. Current Assets/Current Liabilities
 - D. Liquid Assets/Current Liabilities
3. Cash Balance \$15 000; Trade Receivables \$35 000; Inventory \$40 000; Trade Payables \$24000 and Bank Overdraft is \$6 000. Current Ratio will be:
 - A. 3.75 : 1
 - B. 3 : 1
 - C. 1 : 3
 - D. 1 : 3.75
4. Which of the following ratios is considered the most appropriate to measure an entity's profitability?
 - A. Return on Assets
 - B. Debtor Days
 - C. Debt Equity Ratio
 - D. Stock Turnover Rate

Use the following information to answer questions 5-9

Famba and Kura are in partnership sharing profits in the ratio 3:2. The partnership's profit for the year 2021 was \$65 460. The partnership agreement provides for:

- interest to be paid on the partners' opening capital balances at a rate of 5% per annum
- interest on drawings at a rate of 8% per annum on all drawings during the year
- Partners' salaries of Famba, \$9 000; Kura, \$5 000.

At the beginning of the year, the partners' capital and current account balances were:

	Capital	Current
Famba	\$120 000 Cr	\$15 655 Cr
Kura	\$80 000 Cr	\$4 137 Dr

During the year, Famba's drawings were \$18 000 and Kura's drawings were \$31 000

5. The partner's interest on drawings are:
 - A. \$18 000 and 31 000
 - B. \$120 000 and 80 000
 - C. \$6 000 and \$4 000
 - D. \$1 440 and \$2 480
6. Famba's share of profit is:
 - A. \$27 228
 - B. \$18 152
 - C. \$69 380
 - D. \$40 788
7. The current account balances are:
 - A. Famba \$38 443 Cr and Kura \$10 465Cr
 - B. Famba \$38 443 Cr and Kura \$10 465Dr
 - C. Famba \$38 443 Dr and Kura \$10 465Dr
 - D. None of the above
8. Which if the following amounts will increase the residual profit in the appropriation account?
 - A. Salaries
 - B. Interest on capital
 - C. Interest on drawings
 - D. None of the above
9. The partnership was valued at \$200 000 on 31 December. Assume that the capital and current accounts for the two partners were as follows:

Capital	Current	
\$60 000 Cr	\$12 800 Cr	Famba
\$40 000 Cr	\$9 500 Cr	Kura

- The goodwill for this partnership is:
- A. \$200 000
 - B. \$77 700
 - C. \$100 000
 - D. \$122 300
10. You are to buy an existing business which has assets valued at Buildings \$50 000, Motor vehicles \$15 000, Fixtures \$5 000 and Inventory \$40 000. You will pay \$140 000 for the business. This means that
 - A. You are paying 40 000 for Goodwill
 - B. Buildings are costing you 30 000 more than their value
 - C. You are paying \$30 000 for Goodwill
 - D. You have made an arithmetical mistake
 11. In a limited company which of the following is shown in the statement of changes in equity?
 - i. Loan note interest
 - ii. Dividends paid
 - iii. Transfers to reserves

iv. Directors' remuneration

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

12. The issued share capital of a company is

- A. Always the same as the Authorised Capital
- B. The same as the Preference Share Capital
- C. Equal to the reserves of the company
- D. None of the above

13. When do dividends increase shareholder's equity?

- A. On date of declaration
- B. Never
- C. On date of payment
- D. On date of record

14. At 31 December 2020 a company's capital structure was as shown below.

Ordinary Share Capital (500 000 Shares @25cents	\$125 000
Share premium	\$100 000
	\$225 000

In the year ended 31 December 2021 the company made a rights issue of one share for 2 (two) held at \$1 per share and this was taken up to in full. Later in the year the company made a bonus issue of one share for every five held, using the share premium account for the purpose. What was the company's capital structure at 31 December 2021?

A	Ordinary share capital, \$225 000	Share premium, \$325 000
B	Ordinary share capital, \$225 000	Share premium, \$250 000
C	Ordinary share capital, \$212 500	Share premium, \$262 500
D	Ordinary share capital, \$450 000	Share premium, \$25 000

15. Christian has the following working capital ratios:

Ratio	2021	2020
Current ratio	1.2:1	1.5:1
Receivables collection	75 days	50 days
Payables payment	30 days	45 days
Inventory turnover	42 days	35 days

Which of the following statement about Christian is correct?

- A. Christian is suffering from a worsening liquidity position in 2021
- B. Christian is receiving cash from customers more quickly in 2021 than in 2020
- C. Christian's liquidity and working capital has improved in 2021
- D. Christian is taking longer to pay suppliers

SECTION B (70 MARKS)

QUESTION 1

Intelligent Construction (PVT) LTD (ICONS) is a company registered in Zimbabwe under the Companies Act Chapter 24:03. ICONS is a retailer of IBR roofing sheets, window frames, door frames, sliding gates, iron tubes. ICONS imports some of their rectangular iron tubes from China.

In February 2022 ICONS imported rectangular iron tubes from Shanghai Metal Group Inc. The following details are found in the company records:

- (i) On 1 January 2022 Shanghai Metal Group issued an invoice with a value of \$38 546.00 (FOB) for 25 000 units of rectangular iron tubes
- (ii) On 2 January 2022 Takura Shipping issued a profoma invoice with a total of \$3450. This invoice comprised [Freight (\$2 500), Insurance (\$500), VAT (450)]
- (iii) On 3 February 2022 Takura Shipping informed ICONS Operations Director Max Chituku that goods arrived at Mutare GMS (Dry Port) and customs duty of \$2 099 plus \$314 VAT must now be paid within 3 days to avoid penalty charges for the container from Maersk and Tinmac trucking company.
- (iv) On 10 February 2022 when customs duty was finally paid and container released by Zimbabwe Revenue Authority (ZIMRA), Maersk shipping company raised extra container charges (storage) amounting to \$500
- (v) The GMS dry port raised extra storage charges amounting to \$350
- (vi) The Operations Director Max Chituku's salary for the month of January including all allowances was \$2 500
- (vii) Although ICONS' revenue has exceeded the threshold required to register for VAT, the company has not yet applied for registration.
- (viii) The received goods were recorded at the warehouse on 11 February when the container was finally received.

Additional information:

- (i) On 1 January 2022 ICONS had 1 000 rectangular iron tubes in the warehouse that were acquired at a cost of \$2.50.
- (ii) On 12 January 2022, ICONS received 5000 units of rectangular iron tubes that were purchased at a total cost of \$10 000 from Local Supplier (PVT) LTD
- (iii) On 22 January 2022 ICONS sold 3 000 units of rectangular iron tubes at \$5 each
- (iv) On 1 February 2022 ICONS acquired 4 000 units from Local Supplier (PVT) LTD at a cost of \$2
- (v) On 12 February 2022 soon after the shipment received from China, ICONS invoiced T&T Manufacturing 10 000 units of rectangular iron tubes at \$4 and the goods were immediately delivered to T&T.

Required:

- a. Define inventories according to IAS2 (3 Marks)
- b. Explain the difference between Net Realisable Value (NRV) and Fair Value (FV) (3 Marks)
- c. Identify the costs to be charged to inventories purchased from Shanghai Metal Group INC on 1 January 2022 and delivered to the warehouse on 11 February 2022 according to IAS2, and state which costs if any must be excluded. (8 Marks)
- d. Calculate the value of closing inventories for ICONS as at 12 February 2022 using the FIFO and Perpetual Weighted Average Cost. (14 Marks)
- e. Using the results in (d) above, comment on the implications of using different cost formulas. (2 Marks)

[Total:30 Marks]

QUESTION 2

The Statement of Profit or Loss and other Comprehensive Income and the Statement of Financial Position for Klarna, a sole trader and Clever Home (PVT) LTD at 31 January 2021 were as follows:

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 January 2021

	Klarna	Clever Home
	\$	\$
Sales	200 000	400,000
Cost of Sales		
Opening inventory	12 000	58 000
Purchases	88 000	188 000
Cost of goods available for sale	100 000	246 000
Closing inventory	10 000	62 000
Cost of goods sold	90 000	184 000
Operating expenses	50 000	116 000
Net profit	60 000	100 000

Assets	Klarna	Clever Home
	\$	\$
Non-Current Assets	160 000	290 000
Current Assets		
Inventory	10 000	62 000
Trade Receivables	8 000	50 000
Bank	12 000	36 000
	30 000	148 000

Current Liabilities

Trade payables	18 000	102 000
Net Current Assets	12 000	46 000
Total net assets	172 000	336 000

Capital

Ordinary share capital	250 000
Retained profit	86 000
	336 000

Additional information:

The two businesses, Klarna and Clever Home are in the retail of hardware and construction materials. All purchases are on account. Klarna was offered a position as Managing Director (MD) of Intelligent Construction (PVT) LTD which comes with a salary of \$40 000 per annum. If she decides to take up the MD position, she must hire a General Manager at a salary of \$25 000 per annum. Alternatively, Klarna could sell her business and invest the capital earning 10% interest per annum.

Required:

- Use any two ratios known to you to compare the liquidity of Klarna and Clever Home businesses. (6 Marks)
- Using any 3 ratios, show which business is profitable between the two given above. (9 Marks)
- Based on the information given above, what advice would you give to Klarna so that she can maximise her profit in future? (5 Marks)

[Total: 20 Marks]

QUESTION 3

- Discuss any three scenarios that may cause business' profitability not directly relate to its liquidity. (6 Marks)
- The following information pertains to Dande CC:
 - Accounts pertaining to the statement of financial position:

	31 Dec 2020	31 Dec 2021
	\$	\$
Member's contribution: Grace	172 000	158 200
Member's contribution: Taku	120 000	100 000
Retained earnings	246 100	220 000
Long-term loan	40 000	80 000
Creditors control (trade creditors)	38 800	26 000
Accrued interest	2 000	-
Bank (Cr)	-	300
Land and buildings at cost	340 000	340 000
Machinery at cost	105 000	124 000
Furniture and fittings at cost	87 900	67 300
Investments (at cost)	-	25 200
Accumulated depreciation: Machinery	27 000	18 000
Accumulated depreciation: Furniture and fittings	27 200	10 000
Bank (Cr)	85 400	-
Debtors control (trade debtors)	37 400	50 000
Prepaid expenses (Wages)	500	2 600
Inventory	67 000	50 000
Distribution to members payable	26 800	46 660
ZIMRA (income tax) Cr		

2. Items disclosed on the statement of profit or loss and other comprehensive income for the year ended 31 December 2021:

	\$
Revenue	800 000
Cost of sales	450 000

Profit on sale of non-current assets: Furniture and Fittings	2 000
Dividend income: Financial asset at fair value through profit or loss: Held for trading: Listed investments	3 000
Distribution expenses	87 400
Administrative expenses	78 000
Depreciation	63 600
Loss on sale of non-current asset: Machine	8 000
Interest expense	7 300
Profit before tax	110 700
Income tax	31 000

Additional information

On 20 December 2021 a distribution of \$26 800 to each of the members were recorded. On 21 December 2021 a portion thereof was paid to them in cash the outstanding balance on 2 January 2022.

Required:

Prepare the cash flows from operating activities-section of the statement of cash flows of Dande CC for the year ended 31 December 2021, UPTO THE CASH GENERATED FROM OPERATIONS. Apply the INDIRECT METHOD. Your answer must comply with the requirements of International Financial Reporting Standards (IFRS), appropriate to the business of the CC. Comparative figures and notes are not required. (14 Marks)

[Total:20 Marks]