Great Zimbabwe University

HERBERT CHITETO SCHOOL OF LAW AND BUSINESS SCIENCES

<u>DEPARTMENT OF MANAGEMENT STUDIES</u>

MASTER OF COMMERCE DEGREE

LEVEL 1 SEMESTER 1

EXAMINATION QUESTION PAPER

MODULE CODE **MSM614**

MODULE NARRATION **FINANCIAL ACCOUNTING**

DATE

DURATION **3 HOURS**

<u>INSTRUCTIONS TO CANDIDATES:</u>

1. Paper consists of four **(4)** questions.
2. Attempt all **four (4)** questions.
3. Start each answer on a fresh page.
4. You may use a silent non-programmable calculator

QUESTION 1

(a)Classify the following items into current assets, non-current assets, liabilities, non-current liabilities, equity, income or expenses: **[10 marks]**

1. Sale of goods for cash
2. Amounts receivable due to credit sales
3. Rent paid for office premises
4. Amounts payable to credit suppliers
5. Purchase of goods
6. Acquisition of a building
7. Travel expenses
8. Printing charges
9. Corporate tax paid
10. Profit from sale of equipment
11. Interest paid
12. Interest received
13. Purchase of plant and equipment
14. Cash received from owners
15. Bank loans
16. Furniture received from owners
17. Inventories in stock
18. Profit for the period
19. Cash drawings by a sole trader
20. Computers used by employees

(b) On 5 January 2023, Big Inc filed a lawsuit on Small Inc for damages for breach of contract. The claim was for $500,000. Big Inc prepares its financial statements on 31 December every year. The lawsuit with Small Inc is still pending on 31 December 2023. Should Big Inc include this claim amount in the financial statements?**[5 marks]**

© Prepare a trial balance from the following details: **[10 marks]**

	$		$
Sales	50,000	Accrued expenses	6,300
Purchases	30,000	Expenses	12,000
Bad debts	2,000	Discount received	600
Depreciation	3,500	Inventory: 01/01/20X9	6,000
Accumulated depreciation	10,500	Loss on sale of asset	500
Rent received	3,500	Amortisation of intangible asset	300
Petty cash	500	Intangible assets	3,000
Cash at bank	35,000	Share premium account	6,000
Share capital	12,900	Provision for bad debts 01/01/2023	3,000
Inventory:31/12/2023	7,000	Provision for bad debts 31/12/2023	4,000

QUESTION 2

S&K limited is involved in the manufacture of concrete products and its financial statements are as follows:

S&K Limited Statement of Financial Position as at 31 December 2023

	2023	2022
	$'000	$'000
Non-Current Assets		
Property, Plant & equipment	1,8301,461	

Total Non-Current Assets	**1,8301,461**	
Current Assets		
Inventories	262	289
Trade receivables	161	146
Cash & Cash equivalents	98 81	
Total Current Assets	**521 516**	
Total Assets	**2,3511,977**	
Equity & Liabilities		
Equity		
share Capital	300	200
share Premium	50	20
retained earnings	1,451	1,277
revaluation surplus	74120	
Total Equity	**1,8751,617**	
Non-Current Liabilities		
long Term loan	280200	
Total Non-Current Liabilities	**280200**	
Current Liabilities		
Trade Payables	148	116
bank overdraft	10	18
Current Tax Payables	38 26	
Total Current Liabilities	**196160**	
Total Equity & Liabilities	**2,3511,977**	

S&K Limited Statement of Profit or Loss & Other Comprehensive Income for the year-ended 31 December 2023

	$'000
Revenue	4,300
Cost of sales	(3,600)
Gross Profit	700
distribution Costs	(176)
Administration expenses	(124)
finance Costs	(42)

Profit before Tax	**358**
Income Tax expense	(46)
Profit for the Year	**312**
Other Comprehensive Income	
losses on Property revaluations, net of tax	(46)
Total Comprehensive Income for the year, net of tax	**266**

Notes:

(i) Property, Plant & equipment with a carrying value of $320,000 was sold for $280,000. This asset hadoriginally cost $450,000.

(ii) depreciation of Property, Plant & equipment during the year amounted to $356,000.

(iii) dividends paid during the year amounted to $138,000 and are reported in the statement of Changes in equity.

REQUIREMENT:

Prepare a statement of Cash flows for the year-ended 31 December 2023 for S&K limited in accordance with IAs 7 Statement of Cash Flows. **[25 Marks]**

QUESTION 3

Brown plc is a wholesaler. The following is its trial balance as at 31 December 2023.

	Dr *$ 000*	*Cr* *$ 000*
Ordinary share capital: $1 shares		300
Share premium		20
General reserve		16
Retained earnings as at 1 January 2023		55
Inventory as at 1 January 2023	66	
Sales		962
Purchases	500	
Administrative costs	10	
Distribution costs	6	
Plant and machinery – cost	220	
Plant and machinery – provision for depreciation		49
Returns outwards		25
Returns inwards	27	
Carriage inwards	9	
Warehouse wages	101	
Salesmen's salaries	64	
Administrative wages and salaries	60	
Hire of motor vehicles	19	
Directors' remuneration	30	
Rent receivable		7

Trade receivables	326	
Cash at bank	62	
Trade payables		66
1,5001,500		

The following additional information is supplied:

(i) Depreciate plant and machinery 20% on straight-line basis.
(ii) Inventory at 31 December 2023 is $90,000.
(iii) Accrue auditors' remuneration $2,000.
(iv) Income tax for the year will be $58,000 payable October 2024.

Required:

Prepare a statement of profit or loss and a statement of financial position in a form that complies with IAS 1. **[25 marks]**

QUESTION 4

The following financial statements relate to AKU plc:

Statement of profit/loss for the year ended 30 June 2023

$ 000		**$000**
Revenue		6,200
Cost of sales	(2,750)	
Gross profit		3,450
Administration and selling expenses	(2,194)	
Operating profit		1,256
Debenture interest		(84)
Profit before taxation		1,172
Taxation		(480)
Profit for equity holder		692

The directors have recommended a dividend of 36.7 cents per share in respect of Year ended 30 June 2023 to be paid following approval at the next annual general meeting.

Statement of financial position as at 30 June 2023

$000	**$000**	**$000**
Non-current net of depreciation		1,750
Current assets:		
Inventory	620	
Trade receivables	1,540	

Cash		200	2,360
TOTAL ASSETS			$\boxed{4,110}$
EQUITY AND LIABILITIES:			
900,000 ordinary shares of 50 cents nominal value			450
Retained earnings			1,020
			1,470
Non-current liabilities			
6%		1,400	
Current liabilities:			
Trade	300		
Other creditors and 9401,240 2,640			
TOTAL EQUITY AND LIBILITIES $\boxed{4,110}$			

Required
(a) Calculate ratios which measure:
(i) liquidity and the use of working capital;
(ii) management performance; and
(iii) gearing. **[12 marks]**
(b) Explain how each ratio would help in understanding the financial position and results of the company. **[6 marks]**
(c) The market price is currently 1,100 cents per share. Calculate ratios which are useful toinvestors. **[7 marks]**

[Total: 25 Marks]

THE END