



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF LAW, BUSINESS INTELLIGENCE AND ECONOMICS

DEPARTMENT OF ECONOMICS, MARKETING AND ENTREPRENEURSHIP

EXAMINATION PAPER

MODULE CODE : MSTM 514  
MODULE TITLE : STRATEGIC FINANCIAL ACCOUNTING  
DURATION : 3 Hours  
LEVEL : 1.1  
DATE

25 SEP 2024

**INSTRUCTIONS TO CANDIDATES:**

1. No cell phones are allowed in the examination venue.
2. Use of silent, non-programmable calculators is allowed
3. Answer any **four** questions.
4. Begin each question on a new page.
5. The number of marks for each question or part question is shown in brackets [ ]
6. Show all workings, where applicable.

### Question 1

Exquisite is a large high-class hotel situated in an upcoming city. It is part of a worldwide hotel group owned by a large number of shareholders. The majority of the shares are held by individuals, each holding a small number and the rest are owned by financial institutions. The hotel provides full amenities, including a heated swimming pool, as well as the normal facilities of bars, restaurants and good-quality accommodation. There are many other hotels in the city which all compete with Exquisite. The city in which Exquisite is situated is old and attracts many foreign visitors, particularly in its summer season.

#### Required:

- (a) Discuss fully **FIVE** main stakeholders of Exquisite and show their information needs.  
(15 marks)

GAAP is used to describe, rules or guidelines variously called concepts, conventions, axioms, assumptions, postulated, principles, modifying principles etc., developed for the preparation of financial statement. Accounting principles are constantly evolving and are influenced by changes in the social, legal and economic environment; professional bodies and the needs of users of financial information.

Accounting, being a man-made system, must evolve and adjust itself to the changes in needs of the man-kind. As a result, accounting principles are not as exact and rigid as laws of natural sciences. Therefore emphasis is on general, instead of universal, acceptability of accounting principles and they are the pillars on which the structure of accounting is resting.

- b) Discuss fully with the aid of examples **FOUR** qualitative characteristics of accounting information.  
(10 marks)

**[Total: 25 Marks]**

## Question 2

The following information was extracted from the financial statements of Triple E Limited:  
Statement of financial position as at 31 December 2018

	2018	2017
Assets		
		\$ \$
Non-current assets		
Property ,Plant and Equipment at cost	290 000	200 000
Accumulated depreciation on property, plant and equipment	(60 000)	(40 000)
Goodwill	----	10 000
	230 000	170 000
Current assets		
Inventory	115 000	48 000
Trade receivables	98 000	40 000
Bank	<u>12 000</u>	<u>10 000</u>
	<u>225 000</u>	<u>98 000</u>
Total assets	<u>455 000</u>	<u>268 000</u>
EQUITY and LIABILITIES		
Equity		
Ordinary share capital, \$1 share	240 000	200 000
Share premium	10 000	0
Retained earnings	<u>74 000</u>	<u>20 000</u>
	324 000	220 000
Non –current liabilities		

8% debentures	50 000	0
Current liabilities		
Trade payables	50 000	20 000
Current tax payable	18 000	15 000
Dividends payable	13 000	13 000
	<u>81 000</u>	<u>48 000</u>
Total liabilities	<u>131 000</u>	<u>48 000</u>
Total equity and liabilities	<u>455 000</u>	<u>268 000</u>

Statement of comprehensive income for the year ended 31 December 2018

	\$
Revenue	200 000
Operating expenses	(82 000)
Depreciation	(20 000)
Goodwill impairment loss	(10 000)
Debenture interest	(4 000)
Profit before tax	84 000
Income tax expense	(17 000)
Profit for the period	<u>67 000</u>

Additional information:

1. No items of property, plant and equipment were disposed of during the period.
2. Dividends amounting to \$13 000 were declared.

Required:

Prepare the statement of cash flows for the year ended 31 December 2018 using (1) the indirect method and (2) the direct method. The statement of cash flows must comply with the requirements of IAS 7. Comparative amounts and notes are not required. (25 marks)

**Question 3**Tamuka Investment statement of income for year ended 31 Dec      2022      2021

	\$000	\$000
Turnover	2915	3874
Cost of sales	(2011)	(2819)
Gross profit	904	1055
Distributive costs	(141)	(224)
Administrative expenses	(402)	(430)
Operating profit before interest	361	401
interest	(26)	(90)
Profit before tax	335	311
Taxation	(103)	(66)
Profit after tax	232	245
Dividends	(168)	(108)
Retained profit for year	64	137

Tamauka Investments Statement of financial Position as at 31 Dec:

	2022	2021
	\$000	\$000
Non- current assets	1568	2289
Current assets		
inventory	154	273
receivables	304	488
Cash at bank and in hand	37	11
	495	772
Creditors	(226)	(457)
Net current assets	269	315
Long term loans	(320)	(950)
Net assets	1517	1654
Capital and reserves		
Share capital (600000 @\$1)	600	600

Profit and loss	<u>917</u>	<u>1054</u>
Shareholders' funds	<u>1517</u>	<u>1654</u>

1. NOTES

Cost of sales	2022	2021
	\$000	\$000
Opening inventory	148	154
purchases	<u>2017</u>	<u>2938</u>
	2165	3092
Less closing inventory	<u>(154)</u>	<u>(273)</u>
Cost of sales	<u>2011</u>	<u>2819</u>

2. Receivables as at 31 Dec 2021 - \$242 000

3. Creditors as at 31 Dec -2021 - \$ 170 000

4. Other information

a) Numbers employed :

As at 31/12/21/-- 24

As at 31/12/22---26

As at 31/12/23--30

b) Market price of shares:

As at 31/12/21 – 4.50

As at 31/12/22—4.10

Required:

a) Calculate the following ratios for both years in relation to Samurai Investments

- i) Gross Profit Percentage
- ii) Net profit Percentage
- iii) Quick ratio
- iv) Current ratio
- v) Rate of stock turnover
- vi) Return on Capital employed
- vii) Earnings per Share
- viii) Asset turnover ratio

(16 Marks)

b) Discuss performance of Samurai Investments over the period

(9 Marks)

**[Total: 25 Marks]**

#### Question 4

The following information is available for Sango Ltd:

Income Statement for Sango Ltd for year ended 31 December 2022	
	\$000
Revenue	960
Cost of sales	<u>(568)</u>
Gross profit	452
Operating expenses	<u>(393)</u>
Earnings before interest and taxes	59
Interest payable	<u>(22)</u>
Earnings before taxation	37
Taxation payable	<u>(9,25)</u>
Earning after taxation /profit for year	<u>27.75</u>

Statement of Financial position for Sango Ltd as at 31 December 2022		
	\$000	\$000
<b>Non-current Assets</b>		
Tangible Assets	152	
Intangible Assets	<u>45</u>	197
<b>Current Assets</b>		
Inventory	91	
Trade Receivables	25	
Cash and cash equivalents	<u>78</u>	<u>195</u>
<b>Total assets</b>		<u>392</u>
<b>Equity and Liabilities</b>		
Equity		
Share capital(10 000shares@90.00)	90	
Retained earnings	<u>97</u>	

Owner's equity		<u>187</u>
<b>Long term liabilities</b>		
Loan		<u>150</u>
<b>Current liabilities</b>		
Trade creditors		<u>55</u>
Total equity and liabilities		<u>392</u>

- a) Determine stability of Sango Ltd for the year 2021 with the help of a Z-score if the Z-score model is stated as;  $Z = 1,2x_1 + 1,4x_2 + 3,3x_3 + 0,6x_4 + 1,0x_5$ . The market value of one equity share is \$10.00 (15 Marks)
- b) Explain the term financial Distress and show factors that cause financial distress using an example of the organisation of your choice. (10 marks)

**[Total 25 Marks]**

6/0 PM