



**ZIMBABWE EZEKIEL GUTI UNIVERSITY**  
**FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING**  
**DEPARTMENT OF ACCOUNTING AND FINANCE**

**EXAMINATION PAPER**

**COURSE CODE** : CAC 109

**COURSE TITLE** : FINANCIAL ACCOUNTING FOR  
BUSINESS

**DURATION** : 3 Hours

**DATE** : 30 May 2019

**INSTRUCTIONS TO CANDIDATES:**

1. No cell phones are allowed in the examination venue.
2. Use of silent, non-programmable calculators is allowed.
3. Answer all questions in both Section A and Section B.
4. Begin each question on a new page.
5. The number of marks for each question or part question is shown in brackets.
6. Each part question in Section A carries 2 marks.

## SECTION A

### Question One

1.1 Pepukai borrowed \$58000 from Sandra for business purposes. How will this affect the accounting equation?

- 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

1.2 The following information is available about the transactions of Mombe, a sole trader who does not keep proper accounting records:

	\$
Opening Inventory	77000
Closing Inventory	84000
Purchases	763000
Gross Profit as a percentage of sales	30%

Based on the information, what is Mombe's sales revenue for the year?

- A. \$1080000
- B. \$602000
- C. \$982800
- D. 756000

1.3 Which of the following equations is correct?

- 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

1.4 Which of the following items may appear in a company's statement of changes in equity, according to International Accounting Standard (IAS) 1 Presentation of Financial Statements?

- (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)

1.5 If an entity does not follow the going concern concept, then the assets are measured at:

- A. Historical cost
- B. Disposal value
- C. Economic value
- D. Replacement cost

1.6 In times of rising prices, what effect does the use of the historical cost concept have on a company's asset values and profit?

- A. Asset values and profit are both understated
- B. Asset values and profit are both overstated
- C. Asset values understated and profit overstated
- D. Asset values overstated and profit understated

1.7 According to the IASB Framework for the Preparation and Presentation of Financial Statements, the fundamental qualitative characteristic of relevance includes

- A. Predictive value and feedback value
- B. Verifiability, neutrality and representational faithfulness
- C. Comparability and timeliness
- D. Predictive value and confirmatory value

1.8 What is the source document to record a purchase from a supplier?

- A. Reconciliation with supplier statement

- B. Remittance advice
- C. Purchase invoice
- D. Purchase order

**1.9** If \$1000 prepaid rent was incorrectly recorded as accrued rent, net profit is:

- A. Overstated by \$2000
- B. Overstated by \$1000
- C. Understated by \$2000
- D. Understated by \$2000

**1.10** On 1 July 2009, the company's allowance for credit losses was \$48000. On 1 July 2009, trade receivables amounted to \$838000. It was decided to write off \$72000 of these debts and adjust the allowance for receivables to \$60000.

What are the final amounts for inclusion in the company's statement of financial position on 30 June 2010?

	Trade receivables	Allowance for receivables	Net receivables balance
	\$	\$	\$
A	838000	60000	778000
B	766000	60000	706000
C	766000	108000	658000
D	838000	108000	730000

**1.11** Which of the following statements are true?

- (i) Depreciation is recorded in the cash book
  - (ii) Depreciation is recorded in the journal
  - (iii) Bad debts are recorded in the sales book
  - (iv) Allowance for doubtful debts is recorded in the journal
- A. (i) and (iii)
  - B. (ii) and (iv)
  - C. (iii) and (iv)
  - D. (i) and (iv)

**1.12** The following information relates to the business of A Mukanya.

	\$		\$
Sales	150000	Suppliers' closing balance	15000
Opening inventory	20000	Closing inventory	20000
Cash purchases	30000	Suppliers' opening balance	10000
Goods returned to suppliers	5000	Purchase expenses	3000
Cash paid to suppliers	50000	Selling expenses	7500

From the above information, the gross profit on sales is \$

- A. 62000
- B. 54500
- C. 150000
- D. 88000

*Using the information given below attempt questions 1.12 to 1.15*

King Lion Services Ltd extracted the following information from its statement of financial position as on 31 December 2018.

	\$
<b>Assets</b>	
<b>Non-Current Assets</b>	
Land and Buildings	500000
<b>Current Assets</b>	
Inventory	80000
Trade Receivables	220000
	800000
<b>Equity and Liabilities</b>	
<b>Equity</b>	120000
<b>Non-Current Liabilities</b>	
Secured Loans	240000
<b>Current Liabilities</b>	
Trade Payables	150000
Bank overdraft	290000
	800000

**Additional information:**

Sales and purchases for the year are \$500000 and \$350000 respectively. Assume 365 days in year.

**1.13** Calculate the inventory turnover days and receivable days

	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

**1.14** Calculate the quick ratio and current ratio

	Quick Ratio	Current Ratio
A	0.50	0.68
B	0.25	0.72
C	0.65	1.2
D	1.2	0.3

**1.15** Based on the ratios calculated above, which of the following statements are true?

- (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)

## SECTION B

### Question 2

You are to study the following summarised financial statements for two hardware shops and then attempt the questions that follow.

#### Summarised Financial Statements

	Masimbi	Metals
	\$	\$
<b>Statements of profit or loss</b>		
Sales	555000	750000
Cost of sales	(240000)	(330000)
Gross Profit	315000	420000
Expenses	(215000)	(270000)
Net Profit	<b>100000</b>	<b>150000</b>
<b>Statements of financial Position</b>		
Non-current assets	10000	70000
Current assets	210000	182500
Current liabilities	(104000)	(100500)
Net assets	<b>116000</b>	<b>152000</b>
Financed By:		
Capitals: Balance at start of year	76000	72000
Net profit	100000	150000
Drawings	(60000)	(70000)
Total Capital	<b>116000</b>	<b>152000</b>

#### Required:

- a) Calculate the following ratios for both Masimbi and Metals:
- i) Gross profit to sales ratio [4 marks]
  - ii) Net profit to sales ratio [4 marks]
  - iii) Expenses as a percentage of sales [4 marks]
  - iv) Current ratio [4 marks]
- b) Discuss any two limitations of ratio analysis in the analysis of company financial statements [4 marks]
- [Total: 20 marks]

### Question Three

Write short notes on the following:

- (i) Trade receivables (debtors) and trade payables (creditors) [4 marks]
- (ii) Double entry bookkeeping and the accounting equation [4 marks]
- (iii) Five qualitative characteristics of useful accounting information. [10 marks]
- (iv) Drawings [2 marks]

[Total: 20 marks]

### Question Four

A business may take the form of a sole proprietor, partnership, private limited company or public limited company. Thelma has graduated with a Bachelor of Commerce Honours degree in Entrepreneurship and wants to set up a grain milling business.

Required: Advise Thelma on the form of business entity that you consider appropriate. Also highlight the negative side of your recommendation.

[Total: 10 marks]

### Question Five

The objective of financial accounting is

*'To provide useful information about our company to various people and organisations who need the information for different reasons'*

State any five groups of users of the accounting information provided by financial accountants and elaborate on what each of the user groups would be interested in.

[Total: 20 marks]

END OF PAPER