



ASSIGNMENT 1ST SEMESTER : FINANCIAL ACCOUNTING (FA)

STUDY UNITS COVERED : STUDY UNITS 11 - 14

DUE DATE : 3:00 p.m. 20 MARCH 2012

TOTAL MARKS : 100

INSTRUCTIONS TO CANDIDATES FOR COMPLETING AND SUBMITTING ASSIGNMENTS

The complete 'Instructions to Students for Completing and Submitting Assignments' must be collected from any IMM GSM office, the relevant Student Support Centre or can be downloaded from the IMM GSM website. It is essential that the complete instructions be studied prior to commencing your assignment. The following points highlight only a few important notes.

1. You are required to submit ONE assignment per subject.
2. The assignment will contribute 20% towards the final examination mark, and the other 80% will be contributed by the examination, however the examination papers will count out of 100%.
3. Although your assignment will contribute towards your final examination mark, you do not have to earn credits for admission to the examinations; you are automatically accepted on registering for the exam.
4. Number all the pages of your assignment (page 1 of 4) and write your name and surname, student number and subject at the top of **each** page.
5. The IMM GSM requires assignments to be presented on plain A4 paper. You must show all working calculations, including and where appropriate multiple choice working calculations.
6. A separate assignment cover, which is provided by the IMM GSM, must be attached to the front cover of each assignment.
7. Retain a copy of each assignment before submitting, in case the original does not reach the IMM GSM.
8. The assignment due date refers to the day up to which assignments will be accepted for marking purposes. The deadline is 3:00 p.m. on 20 March 2012. Late assignments will be accepted, but **25 marks** will be deducted from the maximum mark, if received after 3:00 p.m. on 20 March 2012 and up to 5:00 p.m. the following day after which no assignments will be accepted.
9. If you fail to follow these instructions carefully, the IMM Graduate School of Marketing cannot accept responsibility for the return of the assignment. It may even result in your assignment not being marked.

Results will be available on the IMM GSM website: www.immgsm.ac.za, on Friday, 4 May 2012.

QUESTION 1**[15]**

Broadway Bathrooms recorded the following transactions for the first 2 weeks in March.

- March 1 Borrowed R90 000 cash from the XY bank. This is a short-term loan payable in 3 months.
- 3 Issued an additional 5000 equity shares for R40 000.
- 4 Purchased an adjacent lot for use as parking space. The price is R70 000, of which R30 000 was paid in cash, the rest is payable over a period of 2 years to ABC Finance House.
- 8 Acquired shop equipment from Elite Bathroom fittings, for R5400 cash.
- 8 Collected accounts receivable of R2 900 from a customer, Beekman Art Shoppe.
- 9 Issued a cheque for R1 060 in full and final settlement of an account payable to Austin Industries Limited.

Required:

Enter the transactions in the two-column journal (general journal) of Broadway Bathrooms, using the following template as a guide. Include a brief explanation of the transaction as part of each journal entry.

General Journal

Date	Description	Debit	Credit
Mar-01			
Mar-03			
Mar-04			
Mar-08			
Mar-08			
Mar-09			

QUESTION 2 – Cash Flow Statement**[15]**

The following is an extract of the transactions of Fiddle Dee & Dee.

	Operating		Investing		Financing		Non Cash
	Source	Use	Source	Use	Source	Use	
Cash dividends paid by the company.							
Sale of equipment for cash.							
Cash loans from the bank.							
Purchase of inventory from suppliers on credit.							
Issuance of equity shares to raise funds.							
Interest paid to lenders.							
Dividend received from investments.							
Cash purchase of machinery.							
Payment of salaries to employees.							
Depreciation of LT assets.							
Payment of operating expenses.							
Loss on sale of equipment.							
Payment to suppliers (accounts payable)							
Sale of goods on credit.							

Required:

Place an X in the column signifying whether the activity is an operating, investing or a financing activity and if it is a source or a use of funds or if it is a non-cash activity.

QUESTION 3 Percentage changes, P/E Ratios and investors expectations**[20]**

Shown below are Alpha Inc.'s Earnings Per Share for a four-year period, along with the per-share market price of the company's stock at each year-end. The earnings in 2009 were the highest in the company's history.

	2006	2007	2008	2009
Earnings per share (cents)	6	5	6	8
Percentage change (%)		?	?	?
Year end share price (cents p.s.)	60	70	120	68
Price/earnings ratio	?	?	?	?

- a) Compute the percentage change in earnings per share in 2007, 2008, and 2009 (Correct to 2 decimal places.) **(6)**
- b) Compute the price/earnings ratio at the end of each of the four years. **(8)**
- c) What does the p/e ratio at the end of 2009 indicate about investors' expectations of earnings per share for the coming year? Explain your reasoning along with other factors you have noticed. **(6)**

QUESTION 4 – Solvency and Credit Risk [20]

Shown below are selected items appearing in a recent Statement of Financial Position (balance sheet) of Cushing Products. (Rand amounts are in thousands.)

	R (000)
Cash and cash equivalents	520
Investments in shares (marketable securities)	200
Receivables	1 300
Inventories	1 000
Prepaid expenses and other current assets	350
Plant and equipment	3 200
Accounts payable	1 500
Short-term loans (payable within one year)	200
Income Taxes payable	200
Retained earnings	1 600
Mortgage bond	2 900

Compute the following:

(correct to 3 decimal places)

- a)**
- 1) Total quick assets **(3)**
 - 2) Total current assets **(3)**
 - 3) Total current liabilities **(3)**
 - 4) Quick ratio **(3)**
 - 5) Current ratio **(3)**
- b)**
- Research indicates an industry average quick ratio is 1.3 to 1, and a current ratio of 2.3 to 1. Based upon this information, does Cushing Products appear more or less solvent than the average company in its industry? Explain briefly. **(5)**

QUESTION 5**[30]**

Given below are comparative statements of financial position (balance sheets) and a statement of comprehensive income (income statement) for Garnet Corporation

Statement of Comprehensive Income

Sales	R 176,000
Cost of Goods Sold	<u>(R 105,800)</u>
Gross Profit	<u>R 70,200</u>
Operating Expenses	<u>(R 58,390)</u>
Operating Income	<u>R 11,810</u>
Interest Expense	<u>(R 3,743)</u>
Profit Before Tax	<u>R 8,067</u>
Tax	<u>(R 3,227)</u>
Net Income	<u>R 4,840</u>

Statement Of Financial Position

	<u>31-Dec-07</u>	<u>01-Jan-07</u>
Long Term Assets		
Plant and Equipment	R 44,000	R 51,000
Short-term Assets		
Cash	R 15,000	R 12,000
Inventory	R 25,000	R 28,000
Accounts Receivable	R 36,000	R 29,000
Total Assets	R 120,000	R 120,000
Equity and Liabilities		
Capital	R 56,000	R 56,000
Retained Earnings	<u>R 24,000</u>	<u>R 28,000</u>
	R 80,000	R 84,000
Long-term Liabilities		
Bank Loan	R 14,000	R 11,000
Short-term Liabilities		
Dividends Payable	R 6,000	R 3,000
Accounts Payable	<u>R 20,000</u>	<u>R 22,000</u>
	R 26,000	R 25,000
Total Equity and Liabilities	R 120,000	R 120,000

Additional Information:

All sales were made on credit. Cash dividends declared during the year totalled R8,840.

Refer to the given data. **Calculate** the following ratios and **comment thereon** (use average numbers where applicable and use 2 decimal places for your ratios).

- 5.1a) The accounts receivable turnover as well as the average days outstanding (3)
 b) Inventory turnover and average inventory days (3)
 c) Gross profit percentage (3)
 d) Return on assets (use the average assets number) (3)
 e) Return on equity (3)
- 5.2) Using the attached template, create a statement of cash flows for the year, based on the indirect method. (15)

<u>Operating Activities</u>	
Income from operations	
Add back depreciation	
Net change in	
Debtors (Accounts receivable)	
Stock (Inventory)	
Creditors (Accounts payable)	
Dividends paid	
Interest paid	
Tax paid	
<u>Total inflow/outflow from operating activities</u>	
<u>Investment Activities</u>	
<u>Total inflow/outflow from investment activities</u>	
<u>Financing Activities</u>	
<u>Total inflow/outflow from financing activities</u>	
<i>Opening cash balance</i>	
<i>Net movement in cash flows during the year</i>	
<i>Closing Cash Balance</i>	