

# THE INSTITUTE OF BANKERS OF ZIMBABWE

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<b>CERTIFICATE IN MICROFINANCE</b>	
SUBJECT	FINANCIAL ACCOUNTING
DATE	26 APRIL 2023
TIME	3 HOURS
MARKS	100
EXAM TYPE	CLOSED BOOK
EQUIPMENT REQUIREMENTS	HAND-HELD NON-PROGRAMMABLE SILENT CALCULATOR

**NB: DO NOT TURN OVER THE QUESTION PAPER OR  
COMMENCE WRITING UNTIL INSTRUCTED TO DO SO.**

## INSTRUCTIONS TO CANDIDATES

1. Read the instructions CAREFULLY before answering the paper.
2. Answer **ALL** Questions.
3. **Ten (10)** minutes reading time is allowed for this paper. During this time, you are permitted to write on the question paper but not in your answer booklet.
4. Please be neat-illegible handwriting cannot be marked.
5. Use black or blue ink.
6. Ensure that all information on the cover of your answer book is completed in full.
7. Cheating is not allowed, if anyone is caught cheating, you will be disqualified from the exam.

## QUESTION 1

A young business graduate decided to put his business and computing skills to profitable use. Using ZWL \$45 000 he had made from vacation earnings, together with ZWL \$40 000 borrowed from his mother at 10% interest per annum, he started business as a computer dating agency. The business offered to match couples scientifically, and to provide each applicant with a list of names and addresses of people who might prove suitable. Applicants were to be left to make their own dates. The fee for this service was ZWL \$150.

He leased premises on August 1, paid ZWL \$20 000 for six months' rent in advance, and started trading. He purchased a microcomputer and ancillaries for ZWL \$24 000, estimating its useful life at ten years. He then proceeded to insert advertisements in student magazines and to organise other promotional activities. The cost of adverts and promotion was \$ZWL\$30 000 and was paid at once. The advertisements etc. were to appear in the period up to the end of December.

To his delight he received over 600 replies in the next three months, of which 400 contained the correct fee. Working night and day, he set up the programs, and by the end of October had matched 350 of the 400 applicants and sent out lists of suitable persons. During September and October, he paid ZWL \$7 500 for postage stationary and other costs.

The following information is relevant to the activities of the business over the three-month period to October 31:

Six couples met and came to an immediate matrimonial arrangement. The additional fee for this was ZWL \$250 per person, but no payment had yet been made.

14 complaints had been received from people who had turned up for appointments not kept by the other party. He had promised to return the fee to all dissatisfied customers.

An elderly retired banker was so delighted by the prospect of his forthcoming marriage that he had promised to send a cheque for ZWL \$30 000 to Mainchance as a gift.

As part of the promotional activities, he had organised a group meeting in a pub. Fighting broke out when the 30 men who had turned up were faced with just one woman. Preliminary estimates of the cost of damages to property and noses had been estimated at ZWL \$7 000.

Inexplicably, his mother's name had been included on the computer listings, and she demanded to know why so many men were calling at her flat. She asked for an account of the business activities.

**You are required to;**

- a) Write up the journal entries for the above transactions [20 marks]
- b) Using the information above and the journal entries prepared in (a) above.
  - (i) Prepare a statement of profit or loss and other comprehensive income [10 marks]
  - (ii) Prepare statement of financial position for the dating agency business [10 marks]

[Total 40 marks]

## **QUESTION 2**

Wamambo Safari has approached a bank for a loan and one of the conditions is that the company should submit a statement of cashflows. The Managing Director has requested that you assist Wamambo Safari. Provided below are the company's financial statements for the two years ended 31 December 2018 and 2019.



## Statements of Financial Position

	As at 31 Dec 2021		As at 31 Dec 2020	
	\$000	\$000	\$000	\$000
<b>Fixed assets:</b>				
Freehold property at valuation		100 000		85 000
Plant and machinery at cost	78 000		69 500	
Less provision for depreciation	<u>32 000</u>	46 000	<u>28 000</u>	41 500
Motor vehicles at cost	40 000		32 000	
Less provision for depreciation	<u>18 500</u>	21 500	<u>17 000</u>	16 200
Office computer equipment at cost	6 000		5 500	
Less provision for depreciation	<u>3 000</u>	<u>3 000</u>	<u>2 800</u>	<u>2 700</u>
		170 500		145 400
<b>Current assets:</b>				
Stocks	25 000			22 200
Debtors	10 200			10 700
Short term investments	30 000			-
Cash at bank	<u>5 400</u>		<u>7 500</u>	
	70 600		40 400	
<b>Current Liabilities</b>				
Trade creditors	(4 500)		(6 800)	
Taxation	(14 000)		(8 600)	
Proposed dividends	<u>(12 000)</u>		<u>(10 000)</u>	
Net current assets	<u>40 100</u>		<u>15 000</u>	
Total assets less current liabilities	210 600		160 400	
<b>Non-current Liabilities</b>				
10% Debenture stock		<u>(10 000)</u>		<u>(15 000)</u>
		<b><u>200 600</u></b>		<b><u>145 400</u></b>
<b>Equity</b>				
Issued share capital		100 000		60 000
Share premium		3 000		21 000
Freehold revaluation reserve		15 000		-
Asset replacement reserve		25 000		20 000

General reserve	40 000	30 000
Retained profit	<u>17 600</u>	<u>14 400</u>
	<b><u>200 600</u></b>	<b><u>145 400</u></b>

**Statement of Comprehensive Income (extract) for the year ended 31 Dec 2019**

	\$000	\$000
Profit before tax		49 400
Taxation		<u>(13 200)</u>
Profit after tax		36 200
Transfer to asset replacement reserve	(5 000)	
Transfer to general reserve	(10 000)	
Dividends paid and proposed	<u>(18 000)</u>	<u>(33 000)</u>
Retained profit for the year		3 200
Retained profit brought forward from 31 December 2018		<u>14 400</u>
Retained profit carried forward to next year		<u>17 600</u>

**Additional information:**

1. During the year to 31 December 2019 the following transactions took place:
  - (i) Plant and Machinery which cost \$12 000 000 and on which depreciation of \$9 500 000 had been provided, was sold for \$2 200 000.
  - (ii) Motor vehicles which had cost \$8 500 000, and which had a written down value of \$1 500 000 at the date of sale were sold for \$2 800 000.
  - (iii) Office computer equipment which had cost \$1 000 000 and on which depreciation of \$500 000 had been provided was sold at a loss of \$200 000.
2. During the year to 31 December 2019 a bonus issue of shares was made on the basis of one bonus share for every three shares already held. This was done by part of the share premium account. The company then made a rights issue on the basis of one share for each four held, the new shares being offered at a premium of 10c on each share.
3. There had been no additions to freehold property during the year to 31 December 2019.
4. The 10% debenture stock is redeemable at par. The debenture stock redemption took place on 1 January 2019.

5. The short-term investments are immediately realizable.

**Required**

- a) Discuss the significance of a statement of cash flows to Wamambo Safari [5 marks]
- b) Prepare a Statement of Cash Flows for the year to 31 December 2019 for Wamambo Safaris using the direct method and in accordance with the provisions of International Accounting Standard 7 (IAS7). [15 marks]

**[Total 20 marks]**

**QUESTION 3**

On completing their Executive MBA Programme, Pamela decided to establish Petals Limited, a new venture that sells high-quality teas and coffees. The business has been operating for a year. Approximately half of sales are on credit. She has requested you to assist her with the preparation of financial statements.

Pamela has provided abbreviated and unaudited financial statements for Petals Limited that are presented below.

**Petals Limited**

**Statement of Financial Performance for the year ended 31 December 2019**

	ZWL\$ '000'
Revenue	1 208 000
Cost of sales	628 200
<b>Gross profit</b>	<b>579 800</b>
Labour costs	(265 800)
Depreciation	(62 500)
Other operating costs	(100 300)
<b>Operating profit</b>	<b>151 200</b>
Interest payable	6 600
<b>Profit before taxation</b>	<b>144 600</b>
Taxation	43 400
<b>Profit for the year</b>	<b>101 200</b>



Statement of financial position as at 31 December 2019

	<b>ZWL</b>
	<b>'000'</b>
<b>ASSETS</b>	
<b>Non-current assets</b>	272 800
<b>Current assets</b>	
Inventories	158 300
Trade receivables	99 600
Cash	2 600
	260 500
<b>Total assets</b>	<b>533 300</b>
<b>EQUITY AND LIABILITIES</b>	
Equity	
Share capital (50p shares, fully paid)	75 000
Share premium	25 000
Retained earnings	146 800
	<b>46 800</b>
<b>Non-current liabilities</b>	
Borrowings – secured loan notes (2018)	30 000
<b>Current liabilities</b>	
Trade payables	111 800
Other payables	41 700
Tax	43 400
Borrowings – overdraft	59 600
	<b>256 500</b>
<b>Total equity and liabilities</b>	<b>533 300</b>

There is additional information that had not been taken into account when the unaudited financial statements for Petals Limited were prepared. The following information has been availed:

1. An additional ZWL \$7.4 million of depreciation should have been charged on fixtures and fittings.
2. Invoices for credit sales on 31 December 2019 amounting to ZWL \$3.4 million have not been included.
3. Trade receivables (Debtors) totaling ZWL \$2.1 million are recognised as having gone bad, but they have not yet been written off.
4. Inventories (stocks) which had been purchased for ZWL \$200 000 have been damaged and are unsaleable. This is not reflected in the financial statements.

5. Fixtures and fittings to the value of ZWL \$1.6 million were delivered just before 31 December 2019, but these assets were not included in the financial statements and the purchase invoice had not been processed.
6. Wages for Saturday-only staff, amounting to ZWL \$100 000, have not been paid for the final Saturday of the year. This is not reflected in the financial statements.
7. Tax is payable at 30 per cent of profit before taxation. Assume that it is payable shortly after the year-end.

### REQUIRED

Prepare the following revised financial statements for Petals Limited for the year ended 31 December 2019

- |  |                   |
|--|-------------------|
| a) A statement of Statement of Financial Performance | <b>[10 marks]</b> |
| b) A Statement of financial position                 | <b>[10 marks]</b> |
| <b>[Total</b>  | <b>20 marks]</b>  |

### QUESTION 4

On being made redundant from the military, T.T has established a company called T.T Enterprises which produces sacks of cat lit called Pooh Wars.

The variable production cost of a bag of Pooh Wars is

	ZWL \$
Direct Materials	0.70
Direct Wages	0.60
Variable Overhead	0.20
Marginal	1.50

1. From his termination T.T has already purchased fixed assets, and of the ZWL \$2,000 left, for working capital, ZWL \$1,000 will be spent on raw materials, to enable production to commence. In future monthly purchases will consist of a half

of the current month's production requirement and a half of the following month's requirement. Payment will be one month after purchase.

2. Workers will be paid piecework, paid into bank, at the start of each month in respect of the previous month's earnings.

3. Of the variable overhead 60% is paid one month in arrears and 40% is paid two months in arrears. Fixed overheads are ZWL \$300 per month and are paid in the month incurred.

4. Production will commence on 1 July. Each month 75% of the current month's sales (and 25% of the following month) will be manufactured.

5. Estimated sales are;

	bags
July	-
August	3,200
September	3,600
October	4,000
November	4,000

The selling price is ZWL \$2.50.

6. Of any month's sales, the pattern of receipts from debtors is:

This month (T)	20 % (for current months' payments, discount = 5%)
T+1	50%
T+2	20%
T+3	8%
Bad debt	2%

**Required:**

Prepare a cash budget for the period July-October.

[15 marks]

Calculate the value of debtors at the end of October.

[5 marks]

[Total 20 marks]