

NATIONAL UNIVERSITY OF LESOTHO
FACULTY OF HEALTH SCIENCES
FINANCIAL MANAGEMENT FOR PHARMACISTS: PHA 4213

August 2023

Marks: 100

Time: 3 Hours

Instructions

1. This paper consists of two sections, Section A and B
2. Attempt all questions in both sections
3. Follow the instructions on your examination folder

Section A: 20 marks

ALL 10 multiple choice questions are compulsory and MUST be attempted.

ONLY the correct alphabet should be written on the lined pages of booklet. Each question carries 2 marks each.

1. What is the purpose of charging depreciation in accounts?
 - a) To allocate the cost less residual value of a non-current asset over the accounting periods expected to benefit from its use
 - b) To ensure that funds are available for the eventual replacement of the asset
 - c) To reduce the cost of the asset in the statement of financial position to its estimated market value
 - d) None of the above

2. The same accounting treatment should be applied to similar items at all items.

Which accounting principle is being applied?

 - a) Consistency
 - b) Duality
 - c) Money measurement
 - d) Prudence

3. Why should costs be matched with revenues at the end of an accounting period?
 - a) So that profit may be calculated
 - b) So that the trial balance will balance
 - c) To calculate the amount owed to trade payables
 - d) To calculate the bank balance

4. Which of the following categories of ratios measures the ability of a company to pay its obligations as they become due?
 - a) Capital structure
 - b) Efficiency
 - c) Liquidity
 - d) Profitability

5. Which of the following statements **best** describes a statement of financial position?
 - a) A statement of the assets, liabilities and capital of a business on a certain date
 - b) A list of balances remaining on a business's books on a certain date
 - c) A summary of a business's transactions for the year
 - d) An account showing the financial position of a business at the year end

6. Sales revenue should be recognized when goods and services have been supplied; costs are incurred when goods and services have been received.
 - a) Prudence concept
 - b) Materiality concept
 - c) Accruals concept
 - d) Dual aspect concept

7. The accounting concept which requires that foreseen losses should be anticipated and taken into account immediately is the
- Consistency concept
 - Accruals concept
 - Prudence concept
 - Going concern concept
8. A sale should be recognized when the goods or services have been provided and the invoice sent out, rather than when the sale is agreed. Which accounting concept does this illustrate?
- Realization concept
 - Consistency concept
 - Going concern concept
 - Materiality concept
9. Which of the following statements about accounting concepts are correct?
- The money measurement concept is that only items capable of being measured in monetary terms can be recognized in financial statements.
 - The prudence concept means that understating of assets and overstating of liabilities is desirable in preparing financial statements.
 - The historical costs concept is that assets are initially recognized at their transaction cost.
 - The substance over form convention is that, whenever legally possible, the economic substance of a transaction should be reflected in financial statements rather than simply its legal form.
10. In times of rising prices, what effect does the use of the historical cost concept have on a company's asset values and profit?
- Asset values and profit both understated
 - Asset values and profit both overstated
 - Asset values understated and profit overstated
 - Asset values overstated and profit understated

Section B = 80 marks

EOQ formula

The formula for the EOQ (or Q) is as follows:

$$Q = \text{EOQ} = \sqrt{\frac{2C_o D}{C_h}}$$

Where:

D = Demand per annum

C_o = Cost of placing one order

C_h = Cost of holding one unit for one year

Q = Reorder quantity (EOQ)

Question 1.

- a) Describe three (3) types of **Costs Holding Inventory** and two (2) types of **Ordering costs** **10 marks**
- b) True Pharm sales 500 units on average per month, which are bought in at a cost of M1.20 each from the supplier. It costs M20 each time to place an order, regardless of the quantity ordered.
The total holding cost is 20% per annum of the value of inventory held.

Required.

- I. Calculate the Economic Order Quantity **5 marks**
II. Calculate the Total Annual Cost. **5 marks**

Total = 20 marks

Question 2

The following table has been prepared to show comparative ratios for two similar retail businesses for the year ending 30 September 20X7: Pharm Chemists and Health-Care Pharmacy.

	Pharm Chemist stores	Health Care Pharmacy
a. Percentage of gross profit to revenue (gross profit margin)	33%	31%
b. Rate of inventory turnover	14 days	16 days
c. Percentage of profit to revenue (profit margin)	9%	11%
d. Return on capital employed (ROCE)	14%	12%
e. Current ratio	1.4: 1	1.1: 1

Additional information: the usual current ratio for this type of retail business is **1.2: 1**. Compare the performance of these two businesses.

Required

- For each ratio identify which business you think is performing better and give reasons for your choice. **5 marks**
- In each case where a business is performing less well than the other business, make three (3) suggestions that could improve that business's performance. **15 marks**
- State three (3) reasons why these ratios may not be strictly comparable. **6 marks**
- List what additional information you would need in order to undertake a detailed ratio analysis of both businesses for the year to 31 Sept 20X7. **4 marks**

Total=30 marks

Question 3.

(a) Discuss five (5) objectives of budgeting

10 marks

(b) Julia Sefako has ambitious plans for 'Bophelo Pharm' for the four- month period ending 31 December 20X3. She will continue to purchase some stock for cash, but has also arranged credit terms with a new supplier. She has also agreed to offer credit terms to a few of her more important customers.

Her detailed plans are as follows:

- Cash balances on 1 September 20X3 are expected to be M4,800.
- Total monthly sales for the 5-month period August to December 20X3 are forecast to be:

	M
August	5000
September	5400
October	5600
November	4800
December	6400

- 80% of all sales will be for cash and the remaining sales will be on credit terms. Sefako plans to offer one month's credit
- Cash purchase during the budget period are planned to be

	M
September	1600
October	1100
November	3200
December	2600

- The new supplier has offered her two months' credit and this arrangement is due to begin in September 20X3. Sefako plans to make the following credit purchases from this supplier:

	M
September	800
October	1200
November	1300
December	900

- Sefako has arranged with her landlord to pay rent of M800 per month.

- Other expenses payments are forecast as follows:

	M
September	600
October	700
November	1000
December	1400

- Sefako plans to have monthly cash drawing M3000
- Sefako will repay the bank loan at the rate of M400 per month. The last instalment is due in November 20X3
- Estimated depreciation for the year M12,000.

Required:

- (a) Prepare a cash flow budget for Bophelo Pharm for the period September to December 20X3 **18 marks**
- (b) Comment on the cash flow position above **2 marks**

Total Marks 30 Marks