

The Open University of Sri Lanka
Faculty of Engineering Technology
Department of Civil Engineering



Study Programme	: Bachelor of Technology Honours in Engineering
Name of the Examination	: Final Examination
Course Code and Title	: CEM7103 Financial Management & Taxation in the Construction Industry
Academic Year	: 2017/18
Date	: 22 nd January 2019
Time	: 0930-1230hrs

General Instructions

1. Read all instructions carefully before answering the questions.
 2. This question paper consists of Six **(6)** questions in **Four (5)** pages.
 3. Answer any **Four (4)** questions only. All questions carry equal marks.
 4. Answer for each question should commence from a new page.
 5. Relevant charts/ codes are provided.
 6. This is a Closed Book Test (CBT).
 7. Answers should be in clear hand written.
 8. Do not use Red colour pen.
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SECTION A - FINANCIAL MANAGEMENT**Q1.**

The Trial Balance of CBAY PLC is given below;

	Dr. (Rs.)	Cr. (Rs.)
Opening Stock	16,000	
Capital		45,000
Salaries	13,000	
Drawings	4,000	
Carriage Inwards	500	
Carriage Outwards	1,000	
Sales Return	1,000	
Purchase Return		7,00
Loan to Mr. X	11,000	
Loan from Mr. Y		7,000
Rent	1,300	
Rent Outstanding		200
Purchase	40,000	
Sales		73,100
Debtors	25,000	
Creditors		8,000
Bad Debt	800	
Reserve for Bad Debt		1,200
Discount Allowed/Received	600	
Furniture	11,700	
Wages	500	
Insurance Premium	1,200	
Rent by Sub-letting		800
Cash	700	
Bank	8,000	
Total	136,300	136,300

Adjustments

1. Closing Stock Rs. 10,500, but the market value of closing stock was Rs. 9,500.
2. Insurance premium prepaid Rs. 200.
3. Loan to Mr. X is given at 10% interest p.a. and loan taken from Mr. Y carries 9% interest p.a.
4. Depreciation is to be provided at 5% on furniture.
5. Goods worth Rs. 500 have been taken by the proprietor for private use.
6. Bad and doubtful debts are to be provided at 10%.
 - a) Prepare a P & L Account for the year ending 31.03.2018 using the above data.

(Marks 15)

- b) An incomplete Balance sheet is given below; you are required to complete the Balance sheet using the available information.

(Marks 10)

Capital		Amount	Assets		Amount
Capital	45,000		Fixed Assets		
Less Drawings	(4,000)		Furniture		
Less Goods taken by owner	(500)		Furniture Depreciation	(585)	
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Liabilities			Current Assets		
Loan from Mr. Y	7,000		Loan to Mr X	11,000	
Add Interest	630		Add Outstanding Interest	1,110	
Rent Outstanding			Debtors		
Creditors			Less Provision for Bad Debt		
			Prepaid Insurance		
			Cash		
			Bank		
			Closing Stock	9,500	
Total			Total		

Q2

- a) The following entries were recorded at Xtranoics Enterprises. Record the six transactions carried out by Xtranoics Enterprises in the appropriate double entry accounts.
1. The owner starts the business with £5,000 paid into a business bank account on 1 July 2018.
 2. The business buys furniture for £400 on credit from Earl Ltd on 2 July 2018.
 3. The business buys a computer with a cheque for £600 on 3 July 2018.
 4. The business borrows £5,000 on loan from a bank on 4 July 2018. The money is paid into the business bank account.
 5. The business pays Earl Ltd £200 by cheque on 5 July 2018.
 6. The owner takes £50 from the bank for personal spending on 6 July 2018.

(Marks 10)

- b) Describe the following financial terms & its relevance to the Profit and Loss Account and Balance Sheet.

1. Liabilities
2. Prepaid
3. Accruals
4. Carriage Outwards
5. Provision for Doubtful Debts

(Marks 05)

- c) Write down the following ratios and define their importance for financial accounting;

1. Debt to Equity Ratio
2. Current Ratio
3. Quick Ratio
4. Net Profit Margin
5. Stock Turnover Ratio

(Marks 05)

- d) ABC Sports Shop sells Racket equipment to local Badminton teams. The Shop Owner is applying for loans to help fund his dream of building an indoor Badminton Court. Shop Owner's bank asks for his balance sheet so they can analyse his current debt levels. According to the Shop Owner's balance sheet he reported Rs 100,000 of current liabilities and only Rs 25,000 of current assets.

Calculate the current ratio.

When evaluated with a similar shop in the same industry (XYZ), the current ratio of XYZ was 1.25 times. Compare the results of ABC and XYZ.

(Marks 05)

Q3.

- (a) Write short descriptive notes on the following:

Ordinary shares

Shareholders

Dividends payable to ordinary share holders

(Marks 07)

- (b) Explain different 'elements of costs' illustrating with examples.

(Marks 07)

- (c) Differentiate between cash flow statement and fund flow statement.

(Marks 06)

- (d) Write a short descriptive note on Double Entry Book-Keeping.

(Marks 05)

Q4.

(a) Explain the objectives of a costing system.

(Marks 05)

(b) Distinguish between the concepts of cost control and cost reduction.

(Marks 05)

(c)

A recent market survey conducted by a heavy machinery-hiring firm revealed that there exists a sound market potential for hiring of tippers. The firm is keen to invest on a fleet of tippers to take advantage of the situation. Prior to the investment, the firm wants to evaluate the economic feasibility of the project. Its costing engineer has estimated the breakdown of costs of running a tipper, which is given below;

Diesel oils and greases	Rs. 16 per km
Tyres and repairs	Rs. 12 per km
Wages	Rs. 16 per km
Depreciation	Rs. 1,000,000 per year
Insurance	Rs. 100,000 per year

(a) The firm has decided to rent a tipper at Rs. 88 per kilometre. How many kilometres does each tipper have to run before 'break even'?

(Marks 06)

(b) If the firm has invested Rs. 4,400,000 on a tipper how many kilometres does each tipper have to run at Rs.88 per kilometre in order to earn 10% 'return on investment' when depreciation and insurance remains the same?

(Marks 04)

(c) The engineer estimates that on average, the next year demand for a tipper would be 15,000 km. On the assumption that conditions remain the same, what is the rate that he should recommend for the firm to quote next year as the hourly rental when the firm has invested Rs. 4,400,000 on a tipper and depreciation and insurance remains the same.

i) to break even

ii) to earn 10% return on investment

(Marks 05)

SECTION B - TAXATION**Q5.**

- (a) Explain separately how resident persons and non resident persons are taxed for their profits and income.
(12 marks)
- (b) Explain the circumstances which empower an assessor to make an assessment.
(08 marks)
- (c) Explain the methods of recovery of tax when tax is not paid under an assessment.
(05 marks)

Q6.

- (a) Section 23 of the Inland Revenue Act sets out certain deductions which are allowable in arriving at person's profit for tax purposes. List the expenses specifically mentioned in the Inland Revenue Act.
(10 marks)
- (b) Explain how an allowance for tax depreciation for plant, machinery and fixtures is granted.
(08 marks)
- (c) Explain how an allowance for tax depreciation for buildings is granted.
(07 marks)