

THE OPEN UNIVERSITY OF SRI LANKA
COMMONWEALTH EXECUTIVE MASTER OF BUSINESS/ PUBLIC
ADMINISTRATION
FINAL EXAMINATION
MSP 9409/ MCP1609 – ACCOUNTING AND FINANCE
DURATION - 03 HOURS



Date : 05. 09. 2020

Time : 9.30am- 12.30 pm

Instructions: Answer ALL five (05) questions.

Numbering of the answers in your answer script should follow the numbers assigned to the questions in the paper.

Illegible hand writing is liable to loose marks.

Use of non-programmable calculator is allowed.

Question No 01

“Financial accounting is a process of identifying and recording of transactions of an organization, and reporting their financial results to various stakeholders”.

- (a) What is meant by the term “transactions”? (03 Marks)
- (b) Briefly explain the output of the financial accounting process. (05 Marks)
- (c) State three (03) stakeholders of a business and discuss how their information needs are fulfilled by financial accounting. (06 Marks)
- (d) Discuss whether each of the following statements is True or False.
- (i) The main objective of Financial Accounting is to prevent frauds and errors.
- (ii) Statement of Financial Position is an input of accounting.
- (iii) Expenses and income are the elements directly related to the statement of financial position.

(06 Marks)

(Total: 20 Marks)

Question No 02

- (a) Briefly explain the term “Finance” as a business function. (02 Marks)
- (b) Explain the objective of the finance function of a business organization.

(04 Marks)

(c) Discuss four (04) major decisions involved in finance as a business function.

(08 Marks)

(d) "The profit maximization is not operationally feasible criterion in financial decision making". Justify this statement by discussing three (03) issues associated with the profit maximization criterion.

(06 Marks)

(Total: 20 Marks)

Question No 03

(a) Explain the following terms providing appropriate examples;

- (i) Variable cost
- (ii) Contribution
- (iii) Mixed cost
- (iv) Margin of safety

(08 Marks)

(b) "The margin of safety can be a positive value or a negative value." Discuss this statement.

(05 Marks)

(c) XY PLC is currently planning to introduce a new product to the market. The following are the costs estimated for manufacturing and selling of this new product during the next financial year.

| | Rs |
|--|---------|
| Raw material cost per unit | 40 |
| Direct labour cost per unit | 50 |
| Annual fixed manufacturing cost | 625,000 |
| Annual fixed selling and distribution expenses | 180,000 |
| Estimated selling price | 140 |

Using the information given above, you are required to;

- (i) Calculate the breakeven point in units and sales value for the next year.
- (ii) Calculate the margin of safety if the company plans to sell 20,000 units during the next year.
- (iii) Determine the quantity of this product required to be sold to earn a profit of Rs 100,000 in the next year.

(07 Marks)

(Total: 20 Marks)

Question No 04

- (a) Briefly explain the meaning of “Capital Budgeting Decisions” of an organization.
(03 Marks)
- (b) Discuss the advantages of the Net Present Value method when compared to Payback Period and Accounting Rate of Return methods.
(06 Marks)
- (c) Assumed that you have been assigned the appraisal of a proposal to purchase of a new machine which would be utilized for producing a new product. The machine will cost Rs 5,500,000 and will have a useful life of five years. The following cash flows are expected to generate during the useful life of the machinery.

Amounts are in rupees thousand

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|--------|--------|--------|--------|--------|
| Net cash flow from sales of the product | 1,200 | 2,400 | 2,700 | 2,000 | 1,100 |
| Residual value of the machine | | | | | 500 |

The company uses a cost of capital of 15% to appraise the projects of this type.

You are required to;

- (i) Calculate payback period, accounting rate of return and net present value of the proposal to purchase machine.
(08 Marks)
- (ii) Discuss the financial viability of the proposal using the calculations in part (i) above.
(03 Marks)
- (Total: 20 Marks)

Question No 05

- (a) Briefly explain how the analysis of financial statements of a business organization aids the decision making of its investors and creditors.
(06 Marks)
- (b) The financial statements of Black PLC for the years ending 31st March 2019 and 2020 are provided below.

Statements of Income (Amounts are in rupees million)

| | 2019 | 2020 |
|---------------------------|--------------|--------------|
| Sales | 3,000 | 4,400 |
| Less : Cost of Sales | | |
| Opening stock | 450 | 720 |
| Purchases | 2,030 | 3,080 |
| Closing stock | (540) | (850) |
| | <u>1,940</u> | <u>2,950</u> |
| Gross Profit | 1,060 | 1,450 |
| Operating expenses | (480) | (964) |
| Interest expense | (80) | (10) |
| Net Profit for the period | <u>500</u> | <u>476</u> |

Statements of Financial Position*(Amounts are in rupees million)*

| | 2019 | 2020 |
|-------------------------------------|--------------|--------------|
| Non-current Assets | | |
| Property | 1,140 | 1,900 |
| Plant | 1,200 | 1,200 |
| Current Assets | | |
| Inventory | 540 | 850 |
| Trade Debtors | 522 | 750 |
| Cash at Bank | 20 | - |
| Total Assets | <u>3,422</u> | <u>4,700</u> |
| Equity and Liabilities | | |
| Equity shares of Rs. 1/- each | 1,000 | 1,000 |
| Retained earnings | 1,184 | 1,660 |
| Non-current Liabilities | | |
| Bank loan | 800 | 928 |
| Current Liabilities | | |
| Trade payables | 408 | 537 |
| Bank overdraft | - | 550 |
| Income tax payable | 30 | 25 |
| Total Equity and Liabilities | <u>3,422</u> | <u>4,700</u> |

Using the above information, you are required to;

- (i) Discuss the current liquidity position of the company by calculating the relevant financial ratios. (04 Marks)
- (ii) Analyze and discuss the profitability and the efficiency of assets utilization of the company during the year ending 31st March, 2020. (10 Marks)

(Total: 20 Marks)

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PRESENT VALUE TABLE

Present value of \$1, that is $(1+r)^{-n}$ where r = interest rate; n = number of periods until payment or receipt.

| Periods (n) | Interest rates (r) | | | | | | | | | |
|----------------|--------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 1% | 2% | 3% | 4% | 5% | 6% | 7% | 8% | 9% | 10% |
| 1 | 0.990 | 0.980 | 0.971 | 0.962 | 0.952 | 0.943 | 0.935 | 0.926 | 0.917 | 0.909 |
| 2 | 0.980 | 0.961 | 0.943 | 0.925 | 0.907 | 0.890 | 0.873 | 0.857 | 0.842 | 0.826 |
| 3 | 0.971 | 0.942 | 0.915 | 0.889 | 0.864 | 0.840 | 0.816 | 0.794 | 0.772 | 0.751 |
| 4 | 0.961 | 0.924 | 0.888 | 0.855 | 0.823 | 0.792 | 0.763 | 0.735 | 0.708 | 0.683 |
| 5 | 0.951 | 0.906 | 0.863 | 0.822 | 0.784 | 0.747 | 0.713 | 0.681 | 0.650 | 0.621 |
| 6 | 0.942 | 0.888 | 0.837 | 0.790 | 0.746 | 0.705 | 0.666 | 0.630 | 0.596 | 0.564 |
| 7 | 0.933 | 0.871 | 0.813 | 0.760 | 0.711 | 0.665 | 0.623 | 0.583 | 0.547 | 0.513 |
| 8 | 0.923 | 0.853 | 0.789 | 0.731 | 0.677 | 0.627 | 0.582 | 0.540 | 0.502 | 0.467 |
| 9 | 0.914 | 0.837 | 0.766 | 0.703 | 0.645 | 0.592 | 0.544 | 0.500 | 0.460 | 0.424 |
| 10 | 0.905 | 0.820 | 0.744 | 0.676 | 0.614 | 0.558 | 0.508 | 0.463 | 0.422 | 0.386 |
| 11 | 0.896 | 0.804 | 0.722 | 0.650 | 0.585 | 0.527 | 0.475 | 0.429 | 0.388 | 0.350 |
| 12 | 0.887 | 0.788 | 0.701 | 0.625 | 0.557 | 0.497 | 0.444 | 0.397 | 0.356 | 0.319 |
| 13 | 0.879 | 0.773 | 0.681 | 0.601 | 0.530 | 0.469 | 0.415 | 0.368 | 0.326 | 0.290 |
| 14 | 0.870 | 0.758 | 0.661 | 0.577 | 0.505 | 0.442 | 0.388 | 0.340 | 0.299 | 0.263 |
| 15 | 0.861 | 0.743 | 0.642 | 0.555 | 0.481 | 0.417 | 0.362 | 0.315 | 0.275 | 0.239 |
| 16 | 0.853 | 0.728 | 0.623 | 0.534 | 0.458 | 0.394 | 0.339 | 0.292 | 0.252 | 0.218 |
| 17 | 0.844 | 0.714 | 0.605 | 0.513 | 0.436 | 0.371 | 0.317 | 0.270 | 0.231 | 0.198 |
| 18 | 0.836 | 0.700 | 0.587 | 0.494 | 0.416 | 0.350 | 0.296 | 0.250 | 0.212 | 0.180 |
| 19 | 0.828 | 0.686 | 0.570 | 0.475 | 0.396 | 0.331 | 0.277 | 0.232 | 0.194 | 0.164 |
| 20 | 0.820 | 0.673 | 0.554 | 0.456 | 0.377 | 0.312 | 0.258 | 0.215 | 0.178 | 0.149 |

| Periods (n) | Interest rates (r) | | | | | | | | | |
|----------------|--------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 11% | 12% | 13% | 14% | 15% | 16% | 17% | 18% | 19% | 20% |
| 1 | 0.901 | 0.893 | 0.885 | 0.877 | 0.870 | 0.862 | 0.855 | 0.847 | 0.840 | 0.833 |
| 2 | 0.812 | 0.797 | 0.783 | 0.769 | 0.756 | 0.743 | 0.731 | 0.718 | 0.706 | 0.694 |
| 3 | 0.731 | 0.712 | 0.693 | 0.675 | 0.658 | 0.641 | 0.624 | 0.609 | 0.593 | 0.579 |
| 4 | 0.659 | 0.636 | 0.613 | 0.592 | 0.572 | 0.552 | 0.534 | 0.516 | 0.499 | 0.482 |
| 5 | 0.593 | 0.567 | 0.543 | 0.519 | 0.497 | 0.476 | 0.456 | 0.437 | 0.419 | 0.402 |
| 6 | 0.535 | 0.507 | 0.480 | 0.456 | 0.432 | 0.410 | 0.390 | 0.370 | 0.352 | 0.335 |
| 7 | 0.482 | 0.452 | 0.425 | 0.400 | 0.376 | 0.354 | 0.333 | 0.314 | 0.296 | 0.279 |
| 8 | 0.434 | 0.404 | 0.376 | 0.351 | 0.327 | 0.305 | 0.285 | 0.266 | 0.249 | 0.233 |
| 9 | 0.391 | 0.361 | 0.333 | 0.308 | 0.284 | 0.263 | 0.243 | 0.225 | 0.209 | 0.194 |
| 10 | 0.352 | 0.322 | 0.295 | 0.270 | 0.247 | 0.227 | 0.208 | 0.191 | 0.176 | 0.162 |
| 11 | 0.317 | 0.287 | 0.261 | 0.237 | 0.215 | 0.195 | 0.178 | 0.162 | 0.148 | 0.135 |
| 12 | 0.286 | 0.257 | 0.231 | 0.208 | 0.187 | 0.168 | 0.152 | 0.137 | 0.124 | 0.112 |
| 13 | 0.258 | 0.229 | 0.204 | 0.182 | 0.163 | 0.145 | 0.130 | 0.116 | 0.104 | 0.093 |
| 14 | 0.232 | 0.205 | 0.181 | 0.160 | 0.141 | 0.125 | 0.111 | 0.099 | 0.088 | 0.078 |
| 15 | 0.209 | 0.183 | 0.160 | 0.140 | 0.123 | 0.108 | 0.095 | 0.084 | 0.079 | 0.065 |
| 16 | 0.188 | 0.163 | 0.141 | 0.123 | 0.107 | 0.093 | 0.081 | 0.071 | 0.062 | 0.054 |
| 17 | 0.170 | 0.146 | 0.125 | 0.108 | 0.093 | 0.080 | 0.069 | 0.060 | 0.052 | 0.045 |
| 18 | 0.153 | 0.130 | 0.111 | 0.095 | 0.081 | 0.069 | 0.059 | 0.051 | 0.044 | 0.038 |
| 19 | 0.138 | 0.116 | 0.098 | 0.083 | 0.070 | 0.060 | 0.051 | 0.043 | 0.037 | 0.031 |
| 20 | 0.124 | 0.104 | 0.087 | 0.073 | 0.061 | 0.051 | 0.043 | 0.037 | 0.031 | 0.026 |

