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: 04. 04. 2021 **Time: 9.30 am -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 handwriting is liable to loose marks.
Use of non-programmable calculators are allowed.

Question No. 1

"Financial accounting is a specific branch of accounting involving a process of recording, summarizing, and reporting the myriad of transactions resulting from business operations over a period of time."

(i) What are the objectives of financial accounting? Explain. **(03 Marks)**

(ii) Briefly explain the five (05) components of financial statements. **(05 Marks)**

(iii) Explain how financial accounting aids decision making of a business enterprise. **(04 Marks)**

(iv) State four (04) users of financial information and their reasons for using financial statements. **(08 Marks)**

(Total: 20 Marks)

Question No. 2

"Investment appraisal is a way that a business will assess the attractiveness of possible investments or projects based on the findings of several different capital budgeting techniques."

(i) Explain four (04) capital budgeting techniques available for investment appraisal. **(08 Marks)**

(ii) Which technique is mostly preferred for investment appraisal? Justify your answer. **(04 Marks)**

You are currently appraising a project to purchase new machine. The machine will cost Rs 6,200,000 and will have a useful life of five years. You have estimated the expected cash flows from the project as follows.

	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Net cash flow (In rupees thousands)	1,200	2,450	2,520	1,970	940

The machine will not have any residual value at the end of its useful life. The company decided to apply the cost of capital of 12% to appraise this project.

(a) Calculate payback period, accounting rate of return and net present value of the project. **(06 Marks)**

(b) Discuss the financial viability of the project based on the calculations in part (a) above. **(02 Marks)**

(Total: 20 Marks)

Question No. 3

(i) Differentiate "variable cost" from "fixed cost". **(06 Marks)**

(ii) Briefly explain the term "mixed cost" giving appropriate examples. **(06 Marks)**

(iii) A company has employed several maintenance workers to keep its machinery running at the expected efficiency level. It incurred the following maintenance cost for these workers over the past six months.

Month	Labour Hours	Maintenance cost (Rs)
January	600	138,000
February	900	146,700
March	1,200	158,000
April	1,400	162,000
May	700	140,700
June	1,100	154,500

You are required to;

(a) Determine the variable and fixed costs included in the above maintenance cost by applying the High-Low method. (Assume that the maintenance cost behaves as a mixed cost). **(05 Marks)**

(b) Estimate the maintenance cost for the next month if 1,050 maintenance labour hours are expected to be spent during the month. **(03 Marks)**

(Total: 20 Marks)

Question No. 4

(i) What is margin of safety? Explain. **(03 Marks)**

(ii) Discuss the practical importance of break-even analysis. **(04 Marks)**

(iii) A company produces and sells Product X at a price of Rs 35/- each. The variable cost per unit is Rs 15/- and fixed administrative and selling costs are Rs 550,000 per month.

You are required to;

(a) Calculate break-even sales volume in units for the month. **(02 Marks)**

(b) Calculate the number of units to be produced and sold if the company expects to earn an operating profit of Rs 150,000 in the next month. **(03 Marks)**

(c) Calculate the margin of safety if the company expects to sell 35,000 units in the next month. **(02 Marks)**

(d) Prepare a Break-even chart showing the information in above part (a), (b) and (c). Explain the information in the graph. **(06 Marks)**

(Total: 20 Marks)

Question No. 5

The following are the financial statements of Beta PLC for the years ending 31st March 2019 and 2020.

Statement of Income for the year ended 31st March,

(Amounts are in rupees millions)	**2020**	**2019**
Sales	20,092	19,889
Cost of sales	(6,044)	(6,204)
Gross Profit	14,048	13,685
Administrative Expenses	(7,277)	(9,221)
Distribution Expenses	(803)	(773)
Interest Expense	(308)	(292)
Income before tax	5,660	3,399
Income tax	(1,691)	(1,222)
Profit for the year	3,969	2,177

Statement of Financial Position as at 31st March;

(Amounts are in rupees millions)	**2020**	**2019**
Assets		
Non-current Assets		
Property, plant and equipment	4,453	4,168
Intangible Assets	10,793	10,046
Current Assets		
Inventory	2,055	1,066
Trade Receivables	3,882	1,757
Other current assets	300	1,905
Cash	934	1,892
Total Assets	22,417	20,834

Equity		
Common Stocks	4,016	3,444
Retained profit	6,350	5,872
Non-current Liabilities		
Finance leases	1,403	1,362
Long-term bank loans	6,118	5,651
Current Liabilities		
Trade Payables	3,679	3,905
Income tax payable	851	600
Total Equity and Liabilities	22,417	20,834

Using these financial statements, you are required to;

(a) Calculate appropriate ratios to analyze the profitability, liquidity, solvency and the efficiency of assets utilization of Beta PLC for the financial year ending 31st March 2020.

(b) Analyze and discuss the profitability, liquidity, solvency and the efficiency of assets utilization of Beta PLC for the financial year ending 31st March, 2020.

(Total: 20 Marks)

Table C : *(Contd)*

Period *n*	14%	15%	16%	17%	18%	19%	20%	24%	28%	32%	36%	40%
0	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
1	0.877	0.870	0.862	0.855	0.847	0.840	0.833	0.806	0.781	0.758	0.735	0.714
2	0.769	0.756	0.743	0.731	0.718	0.706	0.694	0.650	0.610	0.574	0.541	0.510
3	0.675	0.658	0.641	0.624	0.609	0.593	0.579	0.524	0.477	0.435	0.398	0.364
4	0.592	0.572	0.552	0.534	0.516	0.499	0.482	0.423	0.373	0.329	0.292	0.260
5	0.519	0.497	0.476	0.456	0.437	0.419	0.402	0.341	0.291	0.250	0.215	0.186
6	0.456	0.432	0.410	0.390	0.370	0.352	0.335	0.275	0.227	0.189	0.158	0.133
7	0.400	0.376	0.354	0.333	0.314	0.296	0.279	0.222	0.178	0.143	0.116	0.095
8	0.351	0.327	0.305	0.285	0.266	0.249	0.233	0.179	0.139	0.108	0.085	0.068
9	0.308	0.284	0.263	0.243	0.226	0.209	0.194	0.144	0.108	0.082	0.063	0.048
10	0.270	0.247	0.227	0.208	0.191	0.176	0.162	0.116	0.085	0.062	0.046	0.035
11	0.237	0.215	0.195	0.178	0.162	0.148	0.135	0.094	0.066	0.047	0.034	0.025
12	0.208	0.187	0.168	0.152	0.137	0.124	0.112	0.076	0.052	0.036	0.025	0.018
13	0.182	0.163	0.145	0.130	0.116	0.104	0.093	0.061	0.040	0.027	0.018	0.013
14	0.160	0.141	0.125	0.111	0.099	0.088	0.078	0.049	0.032	0.021	0.014	0.009
15	0.140	0.123	0.108	0.095	0.084	0.074	0.065	0.040	0.025	0.016	0.010	0.006
16	0.123	0.107	0.093	0.081	0.071	0.062	0.054	0.032	0.019	0.012	0.007	0.005
17	0.108	0.093	0.080	0.069	0.060	0.052	0.045	0.026	0.015	0.009	0.005	0.003
18	0.095	0.081	0.069	0.059	0.051	0.044	0.038	0.021	0.012	0.007	0.004	0.002
19	0.083	0.0.70	0.060	0.051	0.043	0.037	0.031	0.017	0.009	0.005	0.003	0.002
20	0.073	0.061	0.051	0.043	0.037	0.031	0.026	0.014	0.007	0.004	0.002	0.001
25	0.038	0.030	0.024	0.020	0.016	0.013	0.010	0 005	0.002	0.001	0.000	0.000
30	0.020	0.015	0.012	0.009	0.007	0.005	0.004	0.002	0.001	0.000	0.000	0.000

Table C : Table of Present Value ($PVF_{i,n}$)

Period *n*	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%
0	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826	0.812	0.797	0.783
3	0.971	0.924	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751	0.731	0.712	0.693
4	0.961	0.924	0.889	0.855	0.823	0.792	0.763	0.735	0.708	0.683	0.659	0.636	0.613
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621	0.593	0.567	0.543
6	0.942	0.888	0.838	0.790	0.746	0.705	0.666	0.630	0.596	0.564	0.535	0.507	0.480
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513	0.482	0.452	0.425
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467	0.434	0.404	0.376
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424	0.391	0.361	0.333
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386	0.352	0.322	0.295
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350	0.317	0.287	0.261
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319	0.286	0.257	0.231
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290	0.258	0.229	0.204
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263	0.232	0.205	0.181
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239	0.209	0.183	0.160
16	0.853	0.728	0.623	0.534	0.458	0.394	0.339	0.292	0.252	0.218	0.188	0.163	0.141
17	0.844	0.714	0.605	0.513	0.436	0.377	0.311	0.270	0.231	0.198	0.170	0.146	0.125
18	0.836	0.700	0.587	0.494	0.416	0.350	0.296	0.250	0.212	0.180	0.153	0.130	0.111
19	0.828	0.686	0.570	0.475	0.396	0.331	0.276	0.232	0.194	0.164	0.138	0.116	0.098
20	0.820	0.673	0.554	0.456	0.377	0.312	0.258	0.215	0.178	0.149	0.124	0.104	0.087
25	0.780	0.610	0.478	0.375	0.295	0.233	0.184	0.146	0.116	0.092	0.074	0.059	0.047
30	0.742	0.552	0.412	0.308	0.231	0.174	0.131	0.099	0.075	0.057	0.044	0.033	0.026

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