

025

**THE OPEN UNIVERSITY OF SRI LANKA
 COMMONWEALTH EXECUTIVE MASTER OF BUSINESS/ PUBLIC
 ADMINISTRATION
 FINAL EXAMINATION 2021/2022
 AFP9409/MSP 9409/MCP1609 – ACCOUNTING AND FINANCE
 DURATION - 03 HOURS**



Date : 02. 04. 2022

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 calculators are allowed.

Question No. 1

“Financial accounting intends to communicate financial information of an organization to its stakeholders for decision making”.

- (i) State the components of financial statements. **(04 Marks)**
 - (ii) Discuss the type of information presented in each component of financial statements. **(08 Marks)**
 - (iii) Discuss how financial information assists decision makings of four (04) stakeholders. **(08 Marks)**
- (Total: 20 Marks)**

Question No. 2

- (i) Differentiate the terms “Contribution” and “Profit”. **(02 Marks)**
- (ii) What is the relationship between margin of safety and profit/loss of a firm? Explain. **(04 Marks)**
- (iii) Discuss two (02) business scenarios where the break-even analysis is useful. **(06 Marks)**
- (iv) Sigma PLC is engaged in manufacturing and sale of a specialized product. During the last financial year, the company manufactured and sold 12,500 units which accounts for 75% of the company’s capacity. The financial performance of the company during the last year has been summarized below.

	Rs.
Sales	312,500
Variable costs;	
Raw material cost	(75,000)

Labour cost	(50,000)
Fixed costs;	
Manufacturing overheads	(100,000)
Selling and administrative overheads	(80,000)
Profit	7,500

You are required to;

- (a) Calculate variable cost and contribution per unit of the product. **(02 Marks)**
- (b) Calculate Break-even sales volume and margin of safety in units. **(03 Marks)**
- (c) Determine the number of units to be produced and sold to earn a profit of Rs 22,500. **(03 Marks)**
- (Total: 20 Marks)**

Question No. 03

Capital budgeting is the process that a business uses to determine the feasibility of a proposed capital investment, thereby giving a rational basis for making investment decisions.

- (i) Differentiate the capital budgeting decisions and day-to-day operating decisions of a firm with appropriate examples. **(04 Marks)**
- (ii) Explain reasons for preferring Net Present Value to Accounting Rate of Return used in the financial analysis of capital investment proposals. **(04 Marks)**
- (iii) You are currently considering an investment in a new machine to improve the efficiency of the manufacturing process of your company. The machine will cost Rs 3,200,000 and will have a useful life of five years. The expected cost savings through the usage of this machine are as follows.

Year	Estimated cost savings (Rs)
1	1,150,000
2	1,340,000
3	1,680,000
4	1,520,000
5	850,000

The machine will not have any residual value at the end of its useful life. The company uses a cost of capital of 12% to appraise all projects of this type.

- (a) Calculate payback period, accounting rate of return and net present value of the proposal to purchase machine. **(06 Marks)**

- (b) Discuss how the calculations in part (a) above should be used in the financial analysis of the proposal to purchase machine. **(06 Marks)**

(Total: 20 Marks)

Question No. 04

- (a) Discuss three (03) advantages of working capital management to a firm.

(09 Marks)

- (b) Briefly explain the following terms;

- (i) Operating cycle
- (ii) Cash conversion cycle
- (iii) Working Capital Management
- (iv) Inventory holding period

(11 Marks)

(Total: 20 Marks)

Question No. 5

The following financial statements relate to XY PLC, a company engaged in buying and selling business.

Statement of Income for the year ended 31st March;

<i>(Amounts in Rupees Millions)</i>	2020	2021
Sales	21,395	22,560
Cost of Sales	<u>(12,954)</u>	<u>(13,608)</u>
Gross Profit	8,441	8,952
Other Income	38	150
Administrative Expenses	(1,695)	(1,735)
Distribution Cost	(2,590)	(2,610)
Interest Expense	<u>(1,152)</u>	<u>(2,058)</u>
Profit before Tax	3,042	2,699
Income Tax	<u>(1,185)</u>	<u>(959)</u>
Profit after Tax	<u>1,857</u>	<u>1,740</u>

Statement of Financial Position as at 31st March;

<i>(Amounts in Rupees Millions)</i>	2020	2021
Assets		
Non-current Assets		
Property, Plant & Equipment	30,455	32,506
Current Assets		
Inventory	2,143	1,605
Trade Debtors	1,975	1,250

Cash in Hand and at Bank	3,260	2,450
Total Assets	<u>37,833</u>	<u>37,811</u>
Equity		
Stated Capital - Ordinary Shares	11,000	11,000
Retained Earnings	12,651	14,230
Non-current Liabilities		
Bank Loan	12,200	10,800
Current Liabilities		
Trade Creditors	1,692	1,541
Income Tax Payable	290	240
Total Equity & Liabilities	<u>37,833</u>	<u>37,811</u>

Using these financial statements, you are required to analyze and discuss the profitability, liquidity, solvency and the efficiency of assets utilization of XY PLC for the financial year ending 31st March, 2021.

(Total: 20 Marks)

All Rights Reserved

Formula: $PV = 1 / (1 + i)^n$

Present Value Tables

n/i	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%
1	0.9901	0.9803	0.9707	0.9613	0.9520	0.9428	0.9337	0.9246	0.9156	0.9066	0.8977	0.8888	0.8800	0.8713	0.8627
2	0.9803	0.9612	0.9428	0.9246	0.9066	0.8888	0.8713	0.8541	0.8371	0.8203	0.8037	0.7873	0.7711	0.7551	0.7393
3	0.9707	0.9428	0.9156	0.8888	0.8627	0.8371	0.8119	0.7873	0.7632	0.7393	0.7157	0.6924	0.6694	0.6466	0.6241
4	0.9613	0.9246	0.8888	0.8541	0.8203	0.7873	0.7551	0.7236	0.6924	0.6615	0.6310	0.6009	0.5711	0.5416	0.5124
5	0.9520	0.9066	0.8627	0.8203	0.7793	0.7393	0.7000	0.6615	0.6236	0.5863	0.5496	0.5135	0.4779	0.4428	0.4082
6	0.9428	0.8888	0.8371	0.7873	0.7393	0.6924	0.6466	0.6009	0.5563	0.5135	0.4711	0.4293	0.3880	0.3472	0.3070
7	0.9337	0.8713	0.8119	0.7551	0.7000	0.6466	0.5941	0.5424	0.4916	0.4416	0.3924	0.3439	0.2961	0.2490	0.2026
8	0.9246	0.8541	0.7873	0.7236	0.6615	0.6009	0.5424	0.4856	0.4304	0.3768	0.3240	0.2719	0.2205	0.1698	0.1198
9	0.9156	0.8371	0.7632	0.6924	0.6236	0.5563	0.4916	0.4293	0.3686	0.3094	0.2517	0.1955	0.1408	0.0876	0.0350
10	0.9066	0.8203	0.7441	0.6756	0.6139	0.5563	0.4916	0.4293	0.3686	0.3094	0.2517	0.1955	0.1408	0.0876	0.0350
11	0.8977	0.8037	0.7224	0.6546	0.5946	0.5386	0.4856	0.4344	0.3848	0.3367	0.2891	0.2420	0.1955	0.1496	0.1044
12	0.8888	0.7885	0.7014	0.6246	0.5568	0.4970	0.4440	0.3924	0.3422	0.2934	0.2451	0.1973	0.1500	0.1033	0.0573
13	0.8799	0.7730	0.6810	0.6036	0.5359	0.4759	0.4228	0.3712	0.3200	0.2692	0.2189	0.1691	0.1200	0.0716	0.0239
14	0.8713	0.7579	0.6611	0.5775	0.5051	0.4423	0.3878	0.3354	0.2842	0.2332	0.1824	0.1321	0.0824	0.0333	0.0057
15	0.8627	0.7430	0.6419	0.5555	0.4819	0.4178	0.3634	0.3100	0.2576	0.2054	0.1534	0.1019	0.0508	0.0099	0.0000
16	0.8541	0.7284	0.6232	0.5339	0.4581	0.3936	0.3387	0.2844	0.2308	0.1779	0.1257	0.0742	0.0233	0.0024	0.0000
17	0.8456	0.7142	0.6050	0.5124	0.4346	0.3704	0.3156	0.2614	0.2078	0.1548	0.1024	0.0507	0.0097	0.0000	0.0000
18	0.8360	0.7002	0.5874	0.4936	0.4155	0.3503	0.2959	0.2417	0.1880	0.1349	0.0824	0.0307	0.0097	0.0000	0.0000
19	0.8277	0.6884	0.5703	0.4746	0.3957	0.3305	0.2765	0.2226	0.1691	0.1161	0.0636	0.0119	0.0097	0.0000	0.0000
20	0.8195	0.6730	0.5537	0.4564	0.3769	0.3118	0.2584	0.2045	0.1511	0.0981	0.0456	0.0119	0.0097	0.0000	0.0000
21	0.8114	0.6596	0.5375	0.4388	0.3583	0.2942	0.2401	0.1852	0.1318	0.0789	0.0264	0.0119	0.0097	0.0000	0.0000
22	0.8034	0.6468	0.5219	0.4220	0.3418	0.2775	0.2237	0.1689	0.1156	0.0627	0.0119	0.0097	0.0097	0.0000	0.0000
23	0.7954	0.6342	0.5067	0.4057	0.3256	0.2618	0.2079	0.1531	0.1000	0.0471	0.0119	0.0097	0.0097	0.0000	0.0000
24	0.7876	0.6217	0.4919	0.3901	0.3101	0.2470	0.1931	0.1383	0.0844	0.0315	0.0119	0.0097	0.0097	0.0000	0.0000
25	0.7798	0.6095	0.4776	0.3751	0.2958	0.2328	0.1789	0.1241	0.0702	0.0176	0.0119	0.0097	0.0097	0.0000	0.0000
26	0.7720	0.5976	0.4637	0.3607	0.2812	0.2182	0.1643	0.1095	0.0556	0.0119	0.0119	0.0097	0.0097	0.0000	0.0000
27	0.7644	0.5859	0.4502	0.3483	0.2687	0.2057	0.1518	0.0970	0.0433	0.0119	0.0119	0.0097	0.0097	0.0000	0.0000
28	0.7568	0.5744	0.4371	0.3365	0.2571	0.1941	0.1400	0.0852	0.0315	0.0119	0.0119	0.0097	0.0097	0.0000	0.0000
29	0.7493	0.5631	0.4249	0.3250	0.2459	0.1846	0.1306	0.0754	0.0215	0.0119	0.0119	0.0097	0.0097	0.0000	0.0000
30	0.7419	0.5521	0.4120	0.3083	0.2314	0.1741	0.1214	0.0654	0.0119	0.0119	0.0119	0.0097	0.0097	0.0000	0.0000

