THE OPEN UNIVERSITY OF SRI LANKA
COMMONWEALTH EXECUTIVE MASTER OF BUSINESS/ PUBLIC ADMINISTRATION
FINAL EXAMINATION
MCP1609/MSP9409/AFP9409 – ACCOUNTING AND FINANCE
DURATION - 03 HOURS

Date : 26. 02. 2023	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 hand writing is liable to loose marks.
Use of non-programmable calculators are allowed.

Question No. 1

(i) State the objective of financial accounting. **(03 Marks)**

(ii) Differentiate the statement of income and the statement of cash flows.
(04 Marks)

(iii) Discuss the type of information presented in the statement of financial position.
(04 Marks)

(iv) Discuss how financial statements are useful to the following stakeholders.

      (a) A company's management
      (b) Lenders
      (c) Shareholders   **(09 Marks)**
      (Total: 20 Marks)

Question No. 02

(i) Explain two (02) reasons for preferring net present value to pay-back period in the financial analysis of capital investment proposals. **(04 Marks)**

(ii) Suppose you are currently working on an appraisal of a project to purchase new machine to automate certain tasks performed by workers in the packing department. The machine will cost Rs 2,100,000 and have a useful life of four years. You have estimated the cash flows relating to this project as follows.

	Year 1	Year 2	Year 3	Year 4
Savings in labour costs	1,250,000	1,430,000	1,510,000	1,200,000
Cost of running the machine	570,000	600,000	650,000	550,000

The machine will not have any residual value at the end of its useful life. The company uses a cost of capital of 15% to appraise all projects of this type.

You are required to;

(a) Determine the net cash flows of the project from year 1 to year 4.

(04 Marks)

(b) Calculate payback period, accounting rate of return and net present value of the project.

(06 Marks)

(c) Discuss how the calculations in part (b) above should be used in the financial analysis of the project.

(06 Marks)

(Total: 20 Marks)

Question No. 3

(i) Briefly explain the meaning of "margin of safety".

(02 Marks)

(ii) Explain the behavior of variable cost, fixed cost, and mixed cost by providing an appropriate example for each.

(09 Marks)

(iii) Alpha PLC is running a garment factory. The company is expecting to manufacture and sell 200,000 units of the product – "Alphia" during the next financial year. The budgeted income and expenses in respect of this production and sales target have been summarized below.

	Rs. in millions
Sales (for 200,000 units)	600
Variable costs;	
Raw material cost	(100)
Labour cost	(140)
Fixed costs;	
Manufacturing overheads	(100)
Selling and administrative overheads	(80)
Profit for the year	180

You are required to;

(a) Calculate variable cost per unit and contribution per unit of the product.

(02 Marks)

(b) Calculate Break-even sales volume and margin of safety in units.   **(04 Marks)**

(c) Determine the number of units to be produced and sold to earn a profit of Rs 360 million.

(03 Marks)

(Total: 20 Marks)

Question No. 04

(i) Discuss the importance of working capital management to a manufacturing firm.

(05 Marks)

(ii) Briefly explain the concepts of operating cycle and cash conversion cycle.

(06 Marks)

(iii) Suppose your financial consultancy service firm is currently working on a proposal to improve the working capital management of a manufacturing business. Determine three (03) areas of the business which should be considered in this regard and discuss the reasons for considering each of them.

(09 Marks)

(Total: 20 Marks)

Question No. 5

The following financial ratios have been calculated from the financial statements of ABC PLC.

	2018	2019	2020	2021	2022
Gross profit margin	39.9%	39.0%	37.3%	41.0%	42.9%
Selling and administrative expenses as a % of sales	31.5%	30.6%	31.4%	31.9%	31.7%
Net profit margin	5.8%	6.0%	4.2%	6.4%	7.8%
Trade receivables turnover (times)	5.7	5.9	5.7	5.5	4.3
Inventory turnover (times)	4.1	4.0	4.2	4.3	4.5
Trade payables turnover (times)	34.6	30.8	28.6	31.3	34.8
Property, plant and equipment turnover (times)	1.8	1.5	1.3	1.2	1.4
Interest coverage	5.4	5.6	5.2	3.4	3.1
Long term debt-to-equity	31.0%	38.0%	41.0%	42.0%	69.0%
Current ratio (times)	2.1	2.2	1.7	1.4	0.8

Based on the above financial ratios, you are required to;

(i) Analyze the profitability of the company over the period from 2018 to 2022.

(06 Marks)

(ii) Analyze the company's ability to pay its short-term liabilities over the period from 2018 to 2022.

(06 Marks)

(iii) Explain two (02) reasons for the increasing trend of the net profit margin from the year 2020 to the year 2022.

(04 Marks)

(iv) Explain two (02) areas which should be a matter of managerial concern.

(04 Marks)

(Total: 20 Marks)

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Present Value Table

Present value of 1 i.e. $(1 + r)^{-n}$

Where r = discount rate
n = number of periods until payment

Discount rate (r)

Periods (n)	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	1
2	0·980	0·961	0·943	0·925	0·907	0·890	0·873	0·857	0·842	0·826	2
3	0·971	0·942	0·915	0·889	0·864	0·840	0·816	0·794	0·772	0·751	3
4	0·961	0·924	0·888	0·855	0·823	0·792	0·763	0·735	0·708	0·683	4
5	0·951	0·906	0·863	0·822	0·784	0·747	0·713	0·681	0·650	0·621	5
6	0·942	0·888	0·837	0·790	0·746	0·705	0·666	0·630	0·596	0·564	6
7	0·933	0·871	0·813	0·760	0·711	0·665	0·623	0·583	0·547	0·513	7
8	0·923	0·853	0·789	0·731	0·677	0·627	0·582	0·540	0·502	0·467	8
9	0·914	0·837	0·766	0·703	0·645	0·592	0·544	0·500	0·460	0·424	9
10	0·905	0·820	0·744	0·676	0·614	0·558	0·508	0·463	0·422	0·386	10
11	0·896	0·804	0·722	0·650	0·585	0·527	0·475	0·429	0·388	0·350	11
12	0·887	0·788	0·701	0·625	0·557	0·497	0·444	0·397	0·356	0·319	12
13	0·879	0·773	0·681	0·601	0·530	0·469	0·415	0·368	0·326	0·290	13
14	0·870	0·758	0·661	0·577	0·505	0·442	0·388	0·340	0·299	0·263	14
15	0·861	0·743	0·642	0·555	0·481	0·417	0·362	0·315	0·275	0·239	15

(n)	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	1
2	0·812	0·797	0·783	0·769	0·756	0·743	0·731	0·718	0·706	0·694	2
3	0·731	0·712	0·693	0·675	0·658	0·641	0·624	0·609	0·593	0·579	3
4	0·659	0·636	0·613	0·592	0·572	0·552	0·534	0·516	0·499	0·482	4
5	0·593	0·567	0·543	0·519	0·497	0·476	0·456	0·437	0·419	0·402	5
6	0·535	0·507	0·480	0·456	0·432	0·410	0·390	0·370	0·352	0·335	6
7	0·482	0·452	0·425	0·400	0·376	0·354	0·333	0·314	0·296	0·279	7
8	0·434	0·404	0·376	0·351	0·327	0·305	0·285	0·266	0·249	0·233	8
9	0·391	0·361	0·333	0·308	0·284	0·263	0·243	0·225	0·209	0·194	9
10	0·352	0·322	0·295	0·270	0·247	0·227	0·208	0·191	0·176	0·162	10
11	0·317	0·287	0·261	0·237	0·215	0·195	0·178	0·162	0·148	0·135	11
12	0·286	0·257	0·231	0·208	0·187	0·168	0·152	0·137	0·124	0·112	12
13	0·258	0·229	0·204	0·182	0·163	0·145	0·130	0·116	0·104	0·093	13
14	0·232	0·205	0·181	0·160	0·141	0·125	0·111	0·099	0·088	0·078	14
15	0·209	0·183	0·160	0·140	0·123	0·108	0·095	0·084	0·074	0·065	15