



THE OPEN UNIVERSITY OF SRI LANKA
COMMONWEALTH EXECUTIVE MASTER OF BUSINESS/ PUBLIC
ADMINISTRATION
FINAL EXAMINATION - 2024
AFP9409/MSP9409/MCP1609 – ACCOUNTING AND FINANCE
DURATION - 03 HOURS

Date : 17.02.2024

Time : 1.30pm – 4.30pm

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 statements are the primary output of financial accounting, which include the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and explanatory notes.

- (i) “Statement of financial position portrays state of affairs of an organization”. Discuss. (06 Marks)
 - (ii) Explain the purpose of statement of comprehensive income and key information presented in it. (06 Marks)
 - (iii) Discuss the role of financial accounting in the decision makings of a business organization. (08 Marks)
- (Total: 20 Marks)**

Question No. 2

- (i) Explain the meaning of “variable cost”, “fixed cost” and “mixed cost” with appropriate examples. (06 Marks)
- (ii) The contribution earned by a business for a particular period is different from profit measured in its statement of comprehensive income. Discuss. (06 Marks)
- (iii) Beta PLC is engaged in the business of manufacturing and selling of the product – “Bee”. The company has a capacity to manufacture 10,000 units of Bee per month. The following estimates are relating to 80,000 units expected to be manufactured and sold in the next financial year.

	Rs in thousands
Sales	6,000
Variable costs;	
Raw material cost	1,600
Labour cost	1,200
Fixed costs;	
Manufacturing overheads	1,000
Selling and administrative overheads	600

You are required to;

- (a) Calculate the profit of the company if the output level increases to 90,000 units in the next financial year. **(02 Marks)**
- (b) Calculate Break-even sales quantity and margin of safety in units at the output level of 90,000 units. **(04 Marks)**
- (c) Determine the number of units to be produced and sold to earn a profit of Rs 1 million in the next financial year. **(02 Marks)**

(Total: 20 Marks)

Question No. 3

Capital expenditure is different from the day-to-day running expenses incurred by an organization when conducting its activities, and subject to rigorous appraisal and control.

- (i) Briefly explain two (02) differences between capital expenditure and day-to-day running expenses of an organization with appropriate examples. **(04 Marks)**

- (ii) You, as the Management Accountant in your company, are currently considering a project to purchase a new machinery. The machine will cost Rs 2,700,000 and have a useful life of five years. It would not have any residual value at the end of its useful life. The following are the estimated profits and losses during the project period.

Year	Profit/(Loss) (Rs)
1	260,000
2	1,210,000
3	1,350,000
4	890,000
5	(330,000)

The company uses a cost of capital of 12% to appraise the projects of this type.

Based on the above information, you are required to;

(a) Calculate Payback Period, Accounting Rate of Return and Net Present Value of the project. **(06 Marks)**

(b) Prepare your recommendation to the company's management on the financial feasibility of the project. **(03 Marks)**

(iii) Discuss why the net present value method is considered to be superior than Payback Period and Accounting Rate of Return methods when analyzing capital expenditure projects. **(07 Marks)**

(Total: 20 Marks)

Question No. 4

You have been hired as an analyst by AB Foods PLC and your team is working on an independent assessment of the company. AB Foods PLC specializes in the production of farm products. Your team has provided you with the following data relating to AB Foods PLC and its industry.

Ratio	AB Foods PLC			Industry Average
	2023	2022	2021	2023
Long-term debt-to-total assets	0.45	0.40	0.35	0.35
Inventory Turnover (times)	62.65	42.42	32.25	53
Operating Asset Turnover (times)	0.54	0.65	0.70	0.60
Debtors' Collection Period (Days)	123	98	94	100
Debt to Equity	0.75	0.85	0.90	0.70
Operating Profit Margin (%)	22	26	20	28
Quick Ratio (times)	1.05	1.03	1.03	1.00
Current Ratio (times)	1.33	1.21	1.15	1.25
Times Interest Earned	0.90	4.375	4.45	4.65
Total Assets to Equity	1.75	1.85	1.90	1.88
Average borrowing rate (%)	10.1	11.2	12	11

In the annual report to the shareholders, the CEO of AB Foods PLC wrote, “2023 was a good year for the firm with respect to our ability to meet our short-term obligations. We had higher liquidity largely due to an increase in highly liquid current assets such as cash, account receivables and short-term marketable securities.”

You are required to;

- (i) Critically analyze the validity of the statement given by the CEO of AB Foods PLC in the annual report. **(06 Marks)**
 - (ii) Provide financial analysis on AB Foods PLC's profitability and efficiency of asset management. **(10 Marks)**
 - (iii) Discuss two (02) areas that should be a matter of managerial concern. **(04 Marks)**
- (Total: 20 Marks)**

Question No. 5

- (i) Briefly explain the concepts of operating cycle and cash conversion cycle. **(06 Marks)**
 - (ii) Discuss how a company can optimize its cash conversion cycle for improving its working capital management. **(06 Marks)**
 - (iii) Suppose a financial consultancy service firm is currently working on a project to improve the working capital management of a garment factory. Discuss the significance of improving the receivables and inventory management to the garment factory. **(08 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

