



THE OPEN UNIVERSITY OF SRI LANKA  
FACULTY OF MANAGEMENT STUDIES

ADVANCED CERTIFICATE IN ENTREPRENEURSHIP AND  
SMALL BUSINESS MANAGEMENT (ESBM)

AFC2406 ACCOUNTING AND FINANCE FOR ENTREPRENEURS  
FINAL EXAMINATION – 2023 / 2024  
DURATION – TWO (02) HOURS

DATE: 18<sup>th</sup> August 2024

TIME: 09.30 am – 11.30 am

**INSTRUCTIONS:**

- This Question paper consists of five (05) questions. Answer four (04) questions including Question One (01).
- The Question paper consists of Four (04) pages.
- All Questions carry equal marks (25 marks each)
- The use of a non-programmable Calculator is permitted.

**Question 01 (Compulsory Question)**

The following trial balance is extracted from Sam Dam Enterprises, as at 31<sup>st</sup> March 2024.

**Sam Dam Enterprises**  
**Trial Balance as at 31.03.2024**

“000”

	Debit (Rs.)	Credit (Rs.)
Sales		17,000
Purchases	9,000	
Property Plant & Equipment- At cost		
Land & Building	6,500	
Delivery lorry	2,700	
Computers	1,800	
Accumulated depreciation- as at 01/04/2023		
Building		750
Delivery lorry		300
Computers		840
Inventory as at 01/04/2023	4,500	
Trade receivables & Payables	2,400	3,600
Provision for doubtful debts as at 01/04/2023		240
Salaries	1,000	
Cash in hand	7,000	
Capital as at 01/04/2023		15,770
Investment income		1,500
Electricity expenses	600	
Cash at Bank	1,000	
Telephone charges	3500	
	<b>40,000</b>	<b>40,000</b>

The following additional information are provided.

- 1) The closing stock was valued on 31/03/2024 at cost as Rs. 4, 750,000. The net realizable value of this stock was Rs.4,500,000.

- 2) Electricity bill for the month of March 2024, Rs. 55,000 has not been paid yet.
- 3) Telephone charges have been paid for a period of 14 months starting from 1<sup>st</sup> April 2023.
- 4) Out of the received investment income, only 90% belongs to the current accounting period and the balance is for the next accounting period.
- 5) Property Plant and Equipment are to be depreciated on the straight-line basis at cost.
  - Building : 10% (The value of the Land is Rs.5,000,000.)
  - Delivery Lorry : 10%
  - Computers : 15%
- 6) The owner decided to write-off Rs.100,000/- from a debtor as bad debts, and to make a general provision of 5% for doubtful debts on the balance remaining trade receivable balance as at 31<sup>st</sup> March 2024.

You are required to prepare the following:

- I. Statement of Income for the Year Ended 31<sup>st</sup> March 2024.
- II. Statement of Financial Position as at 31<sup>st</sup> March 2024.

**(25 marks)**

### Question 02

- I) Explain briefly the main purpose of accounting function of a business. (03 marks)
- II) Name six stakeholders of a business of your choice and write the reason for the interest of each identified stakeholder. (12 marks)
- III) The following transactions have been extracted from the books of accounts of Paypal Enterprises. Enter these transactions into the primary accounting equation.
  - i. Mr. Perera commenced a computer accessory business called Paypal Enterprises by investing Rs.850,000 in cash and Rs. 500,000 worth of furniture and Rs. 750,000 worth of Lorry to the Business.
  - ii. Business purchased a stock worth of Rs. 450,000 by paying Rs. 200,000 in cash and promising the supplier, Jaan Computers to settle the dues within 15 days.
  - iii. Stocks worth of Rs. 120,000 was sold to Mr. Siva for Rs. 150,000.
  - iv. Stock worth of Rs. 10,000 was fully destroyed by a fire.
  - v. Paid the electricity bill of Rs. 4,500
  - vi. Mr. Perera took Rs. 200,000 cash from the business for his personal use.
  - vii. Business settled the dues to Jaan computers and 5% cash discount was received on the paid amount.
  - viii. Mr. Siva Settled his dues and a discount of Rs. 5,000 was given to him.
  - ix. Business donated Rs. 10,000 to a Children's home.
  - x. Mr. Perera opened a current account in a bank by depositing Rs. 50,000.

**(10 marks)**

**(25 marks)**

### Question 03

- I) What is the reason for preparing the Bank reconciliation statement? (02 marks)
- II) Differentiate a Current Account and a Savings Account of a Bank. (04 marks)
- III) Define the terms "Direct Remittance" and "Standing Order" and give an example for each. (05 marks)

IV) On 31<sup>st</sup> May 2024, the bank column of cash book of Amaya Holdings Company showed a debit balance of Rs.13,600. This balance did not agree with the balance given in the Bank Statement of the same date and following transactions caused for the differences.

- Cheque Book charges Rs.750 has not been recorded by the business.
- A standing order of Rs.2,500 for Insurance had been directly paid by the bank.
- Mr. Avinda, a debtor of the business, has settled his dues of Rs. 15,000 by making a direct deposit to the bank, this was not informed to the business by him.
- The details on the cheques issued and deposited during the month of May are as follows.

CH0100	This cheque valued Rs.12,000 was given to Mr. Dian on 15 <sup>th</sup> May but has not been presented to the bank within the month.
CH1715	This cheque valued Rs.5,000 was deposited on 30 <sup>th</sup> May but has not been realized within the month.
CH1329	This cheque valued at Rs.2,500 was deposited by the business on 28 <sup>th</sup> April 2024. It has been dishonored by the bank on 2 <sup>nd</sup> May 2024. This has not yet been adjusted by the business.

- The book-keeper has erroneously debited Rs. 2,000 to the bank account.

You are required to prepare adjusted cash book and bank reconciliation statement for the month of May 2024.

(14 marks)

(25 marks)

#### Question 04

I. Suppose you have been appointed as a member of the Director Board of a Company. The Company has got two alternative projects out of which one needs to be selected for execution. The forecasted cash inflows and outflows of the two projects for the next four years are as follows.

Values in "000"		
Year	Project A	Project B
	Net cash flows (Rs)	Net cash flows (Rs)
0	(48,000)	(48,000)
1	13,000	13,000
2	17,000	11,500
3	15,500	19,000
4	8,500	9,000

- Calculate the Pay back periods of each project and identify the most feasible project. (05 Marks)
  - If the investor's required rate of return (RRR) is 10%, calculate Net Present Value (NPV) of each project and recommend which project should be selected by the investor? (10 Marks)
- II) "Cute Looks" is a fancy ornaments manufacturing entity which recently accepted an order from abroad to manufacture 100 units. Consider the following information related to the order.

	Value in Rs.
Opening inventory (raw materials) as at 01/04/2023	45,000
Expenses related with the production	
Purchase of raw materials	23,000

Building rent	1,500
Electricity charges	1,200
Wages to the production staff	40,000
Supervisor salary	25,000
Machine repairs	2,750
Depreciation of the machine used for the production	250
Cleaning expenses	1,250
Broker's charges	10,250

You are required to calculate the following. Clearly provide assumptions made by you in calculating the same.

- i. Primary Cost
- ii. Overhead Cost
- iii. Total Cost
- iv. Unit Cost of a product

(10 marks)

(25 marks)

### Question 05

- I) The trial balance of Avon Distributors for the year ended 31/03/2024 was not balanced and a difference of Rs. 13,500 were identified. The difference was credited to a suspense account and on investigation, the following errors were identified.
- 1) The electricity bill of Rs. 12,500 has been erroneously debited twice to the electricity bill account. However, this has been correctly recorded in the cash book.
  - 2) The commission income Rs. 6,000 has been debited to both cash account and commission income account.
  - 3) Purchase of stationaries worth of Rs.13,000 has been correctly recorded in the expenditure account, but this has been credited to the sales account instead of the cash book.
  - 4) Rent expenditure Rs. 5,500 has been credited to the Rent income account. However, this has been correctly recorded in the Cash book.
  - 5) Cleaning Expenses Rs.3,500 have been fully omitted from the Books of Accounts.

You are required to;

- i. Write the journal entries to rectify the errors (10 marks)
- ii. Prepare the Suspense account (05 marks)

II) Write short notes on the following topics.

- i. Business Entity Concept
- ii. Accrual Concept
- iii. Break Even Analysis
- iv. Fixed cost Vs Variable cost of a Product
- v. Long run production Vs Short run production

(10 marks)

(25 marks)

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