

THE OPEN UNIVERSITY OF SRI LANKA  
FACULTY OF MANAGEMENT STUDIES



ADVANCED CERTIFICATE IN ENTREPRENEURSHIP & SMALL BUSINESS  
MANAGEMENT (ESBM)

AFC 2406 – ACCOUNTING AND FINANCE FOR ENTREPRENEURS  
FINAL EXAMINATION - 2024/2025  
DURATION – TWO HOURS (02)

DATE: 01<sup>st</sup> JUNE 2025

TIME: 9.30 a.m. – 11.30 a.m.

**Instructions:**

- Answer 04 questions including question 01.
- Marks have been mentioned at the end of each question.
- Please write your Index Number clearly in the space provided in the answer booklet.
- This question paper consists of five (05) typed pages.
- All workings must be clearly mentioned.
- The use of non-programmable calculator is permitted.

**Question 01 (Compulsory)**

- I) Marvel Place is a Sole Proprietorship. The Trial Balance extracted from the books of accounts of Marvel Place as at 31.03.2025 is given below.

Marvel Place		
Trial balance as at 31 <sup>st</sup> March 2025		
(Rs. '000)		
Description	Debit	Credit
Property Plant and Equipment-at cost		
Land & Building	3,500	
Furniture	1,300	
Computers	1,200	
Delivery Lorry	1,000	
Accumulated depreciation as of 01 <sup>st</sup> April 2024		
Building		270
Furniture		250
Computers		230
Delivery Lorry		150
Purchases & Sales	22,000	25,000
Trade receivables and payables	5,000	5,300
Inventory as at 01 <sup>st</sup> April 2024	8,000	
Provision for doubtful debt as of 01 <sup>st</sup> April 2024		200

Capital as at 01 <sup>st</sup> April 2024		15,000
Salaries to staff	600	
10% Bank loan		11,000
Telephone charges	400	
Cash at Bank	2,000	
Long term Investment	9,000	
Postage expenses	2,100	
Investment Income		1,800
Cash in Hand	2,900	
Insurance expenses	1,000	
Commission income		800
	<b>60,000</b>	<b>60,000</b>

**The following additional information is provided.**

- 1) The closing stock was valued on 31/03/2025 at cost as Rs. 6, 250,000. The net realizable value of this stock was Rs.6,000,000.
- 2) Telephone charges for the months of February and March 2025, Rs. 40,000 and Rs.35,000 have not been paid yet.
- 3) Postage expenses have been paid for a period of seven months starting from 1<sup>st</sup> October 2024.
- 4) Out of the received investment income, only 75% belongs to the current accounting period and the balance is for the next accounting period.
- 5) Out of the total commission income pertaining to the financial year, only 60% has been received.
- 6) The insurance expenses relevant to the current year is Rs.500,000 and the rest paid is the installment for the next year.
- 7) Property Plant and Equipment are to be depreciated on the straight-line basis at cost.
  - Building : 10% (The value of the Land is Rs.2,500,000.)
  - Furniture : 10%
  - Delivery Lorry : 15%
  - Computers : 05%
- 8) The owner decided to write-off Rs.150,000/- 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 2025.
- 9) The Bank loan has been borrowed on 01/07/2024.
- 10) The Business donated Rs.10,000 to a charity programme on 01/01/2025 and this has not been entered to the books of accounts.

You are required to prepare the following:

- i) Statement of Income for the Year Ended 31<sup>st</sup> March 2025.
- ii) Statement of Financial Position as at 31<sup>st</sup> March 2025.

**(40 marks)**

**Question 02**

The following transactions have been extracted from the books of accounts of Rocky Enterprises, a retail business for the Month of April 2025.

1. Mr. Rocky started the business by investing Rs. 1,500,000 in cash, Rs. 500,000 worth of office furniture, and Rs. 350,000 worth of Equipment.
2. The business made cash purchases Rs. 100,000.
3. Mr. Rocky invested additional Capital to the business Rs. 500,000.
4. The business purchased inventory worth Rs. 400,000 from Exim Suppliers, paying Rs. 150,000 in cash and promising to settle the remaining within 30 days.
5. Rocky Enterprises sold inventory worth Rs. 100,000 to Mr. Alex for Rs. 120,000.
6. Inventory worth Rs. 50,000 was found to be defective and was returned to Exim Suppliers.
7. The business received Rs. 100,000 in cash from Mr. Alex to settle the due, after deducting the discount.
8. Mr. Rocky withdrew Rs. 50,000 from the business for personal use.
9. The business settled the dues to Exim Suppliers and a 5% discount was given up on the settlement.
10. The business paid Rs. 15,000 for transport expenses.

You are required to:

Enter these transactions into the basic accounting equation (Assets= Equity +Liabilities).

**(20 marks)**

**Question 03**

I) Elegant Blooms, a small-scale flower arrangement business, is trying to determine the total drawings made by the owner, Ms. Ruwani, during the financial year 2024–2025. The business provides the following financial details:

- Opening Capital (01.04.2024): Rs. 850,000
- Additional Capital Introduced during the year: Rs. 150,000
- Closing Capital (31.03.2025): Rs. 900,000
- Profit for the year: Rs. 180,000

Assuming that the drawings represent the difference between the profit added to the business and the change in capital after accounting for additional investments, calculate the total drawings for the year 2024–2025 using the provided information.

**(05 marks)**

II) The following details have been extracted from the ABC Company.

- Selling price per unit: Rs. 50
- Total fixed costs: Rs. 40,000
- Expected sales volume: 5,000 units
- Direct material cost per unit: Rs. 10
- Direct labor cost per unit: Rs. 5
- Variable overhead cost per unit: Rs. 3

You are expected to;

- a) Calculate the total variable cost per unit.
- b) Calculate the contribution per unit.
- c) Determine the break-even point in units.
- d) Determine the break-even point in sales revenue.
- e) Calculate the margin of safety in units and revenue if the company expects to sell 5,000 units.
- f) If the company wants to earn a profit of Rs. 20,000, how many units must it sell?

(15 marks)

(20 marks)

#### Question 04

I) Flora World, a supplier of ceramic flower vases, provides the following information related to one of their products.

- |  |                                     |
|--|-------------------------------------|
| • Annual demand: 7,200 units               | • Normal usage: 150 units per week  |
| • Ordering cost per order: Rs. 500         | • Minimum usage: 100 units per week |
| • Purchase price per unit: Rs. 100         | • Maximum usage: 200 units per week |
| • Carrying cost: 20% of unit cost per year | • Lead time: 4 to 6 weeks           |

You are expected to calculate:

- a. Economic Order Quantity (EOQ)
- b. 1. Reorder Level
2. Minimum Stock Level
3. Maximum Stock Level
4. Average Stock Level

(10 marks)

II) The Cash Book balance of Lotus Blooms as of 30<sup>th</sup> April 2025 showed a debit balance of Rs. 25,000. On comparing the bank statement with the cash book, the following differences were identified.

- Bank charges of Rs. 1,500 appeared on the bank statement but were not recorded in the cash book.
- A standing order payment of Rs. 4,500 for a monthly subscription has been made by the bank.
- A direct deposit of Rs. 10,000 has been made by a debtor on 28<sup>th</sup> April, 2025.
- Cheque No. 1201 for Rs. 6,000 issued on 29<sup>th</sup> April 2025 has not been presented for payment by 30<sup>th</sup> April 2025.
- A cheque (Cheque No. 1300) for Rs. 8,000, deposited on 28<sup>th</sup> April 2025, has not yet been realized.

You are required to prepare:

- Adjusted Cash Book as at 30<sup>th</sup> April 2025.
- Bank Reconciliation Statement as at 30<sup>th</sup> April 2025, starting with the Adjusted Cash Book balance.

(10 marks)

**(20 marks)**

### Question 05

I) The trial balance of Ama Traders did not agree, and the difference of Rs.60,500 was credited to the suspense account. On investigation, the following errors were discovered.

- The sales account balance was overcast by Rs. 5,000.
- A payment of Rs. 10,000 for rent has been debited to machine repairs account.
- Rs. 70,000 received from a debtor was credited to his account as Rs. 7,000.
- Purchases worth of Rs. 10,000 has been fully omitted from the books of accounts.
- Rs. 2500 paid for stationery has been omitted from the stationery account.

You are required to:

- Prepare the Suspense Account
- Write the journal entries for rectification of errors

(10 Marks)

II) Two projects, A and B, each require an initial investment of Rs. 50,000. Their projected cash flows for the next 5 years are given below:

Year	Project A Cash Inflows (Rs)	Project B Cash Inflows (Rs)
1	30,000	10,000
2	20,000	10,000
3	10,000	15,000
4	5,000	20,000
5	2,000	30,000

The company's cost of capital (discount rate) is 10%.

You are required to:

- Calculate the Payback Period for Project A and Project B. Indicate which project is more preferable.
- Calculate the Net Present Value (NPV) of Project A and Project B and indicate which project is more preferable under the NPV calculation.

(10 Marks)

**(20 Marks)**

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