

0021

**THE OPEN UNIVERSITY OF SRI LANKA  
COMMONWEALTH EXECUTIVE MASTER OF BUSINESS/ PUBLIC  
ADMINISTRATION  
FINAL EXAMINATION - 2025  
AFP9409/MSP9409/MCP1609 – ACCOUNTING AND FINANCE  
DURATION - 03 HOURS**



Date : 22.02.2025

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 is allowed.*

**Question No. 1**

Financial accounting serves as a vital tool for decision-making in an organization.

- (i) Differentiate Statement of Comprehensive Income and the Statement of Cash Flows in terms of their purpose, structure, and usefulness to stakeholders. **(06 Marks)**
- (ii) “The Statement of Financial Position provides a snapshot of an organization’s financial health at a specific point in time.” Critically analyze this statement. **(06 Marks)**
- (iii) Discuss the role of financial accounting in investment, financing and working capital management decisions, providing relevant examples. **(08 Marks)**
- (Total: 20 Marks)**

**Question No. 2**

- (i) What is meant by the term “contribution”. **(04 Marks)**
- (ii) Discuss two (02) applications of cost-volume-profit analysis in managerial decision making in a business organization. **(04 Marks)**
- (iii) PQ PLC is considering to introduce a new product to the market. The following estimates are relating to this new product during the next financial year.

	Rs.
Raw material cost per unit	30
Direct labour cost per unit	90
Annual fixed manufacturing overheads	915,000
Annual fixed selling and distribution expenses	265,000
Estimated selling price	160

Using the above information, you are required to;

- (a) Calculate Break-even sales quantity, and margin of safety in units at the output level of 34,000 units. **(04 Marks)**

(b) Determine the number of units to be produced and sold to earn a profit of Rs 430,000 in the next financial year. **(02 Marks)**

(c) Suppose PQ PLC switches from its labor-intensive production process to an automation manufacturing process. Discuss how this decision affects the break-even point and profit of the company. **(06 Marks)**

**(Total: 20 Marks)**

### Question No. 3

(i) Explain the significance of capital budgeting decisions in ensuring the long-term survival and sustainable growth of a business. **(04 Marks)**

(ii) State two (02) advantages and two (02) limitations of using the Payback Period method when compared to the Net Present Value method. **(04 Marks)**

(iii) Suppose that you, as the Management Accountant of AB PLC, are currently considering a proposal to purchase a new machine to be used in the company's manufacturing process. The machine will cost Rs 3,450,000 and have a useful life of five years. The following cash flows are expected to generate during the useful life of the machinery.

The amounts are in rupees thousands

	Year 1	Year 2	Year 3	Year 4	Year 5
Increase in sales from the new machine	1,200	2,400	2,700	2,000	1,100
Savings in variable costs from the new machine	750	920	945	810	670
Increase in fixed costs from the new machine	1020	1430	1550	1730	1800
Residual value of the new machine					450

The company uses a cost of capital of 13% to appraise the projects of this type.

**You are required to;**

(i) Calculate payback period, accounting rate of return and net present value of the proposal to purchase machine. **(08 Marks)**

(ii) Discuss the financial viability of the proposal using the calculations in part (i) above. **(04 Marks)**

**(Total: 20 Marks)**

**Question No. 4**

You have been appointed as a financial analyst by XYZ Electronics PLC, a company engaged in the manufacturing and distribution of consumer electronic products. You are now conducting a review of the company's financial performance. You have calculated financial ratios from the company's financial statements from 2020 to 2024 and obtained related industry averages for the year 2024, as follows.

	2020	2021	2022	2023	2024	Industry
Gross profit margin	18%	17%	20%	21%	18%	23%
Operating profit margin	12%	15%	14%	17%	13%	
Net profit margin	8%	10%	9%	6%	5%	15%
Trade receivables turnover (times)	12	10	11	8	6	
Inventory turnover (times)	20	19	22	12	10	
Creditors' settlement period (days)	22	30	32	35	40	
Total assets turnover (times)	1.8	1.5	1.6	1.5	1.2	2.2
Interest coverage	5.4	5.6	5.2	3.4	3.1	
Long term debt-to-equity	23%	15%	20%	32%	40%	30%
Current ratio (times)	2.1	2.2	2.8	3.4	4.8	

At the company's Annual General Meeting, the CEO stated that "Our company has shown strong liquidity improvements in 2024, with a solid increase in current assets. Thus, we are well-positioned to meet our short-term obligations."

**You are required to;**

- (i) Provide a detailed financial analysis on profitability and efficiency of asset management of XYZ Electronics PLC. **(10 Marks)**
- (ii) Critically analyze the validity of the statement given by the company's CEO at the Annual General Meeting. **(06 Marks)**
- (iii) Discuss two (02) areas of concern for management based on the financial analysis of XYZ Electronics PLC. **(04 Marks)**

**(Total: 20 Marks)**

**Question No. 5**

- (i) Explain the trade-offs between profitability and liquidity in working capital management. **(06 Marks)**
- (ii) Discuss the significance of working capital management in ensuring financial health of a business organization. **(06 Marks)**
- (iii) A business is evaluating the impact of extending the credit period given to its customers from 30 days to 40 days. Analyze the potential advantages and risks associated with this decision, and discuss the critical factors that should be considered before its implementation. **(08 Marks)**

**(Total: 20 Marks)**

-----All Rights Reserved-----

## 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