

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 - 2025/2026

DURATION – TWO (02) HOURS



DATE: 17th MAY 2026

TIME: 09.30 A.M. – 11.30 A.M.

INSTRUCTIONS:

- This Question paper consists of five (05) questions. Answer four (04) questions including Question One (01). All Questions carry equal marks (25 marks each).
- The Question paper consists of Four (04) pages.
- Please write your Index Number in the space provided in the answer script.
- All the workings should be clearly mentioned in the answer booklet.
- The use of non-programmable calculators is permitted.

Question One

- a) Explain three reasons why it is essential for entrepreneurs to maintain proper financial records. (05 Marks)
- b) The Trial Balance of Ravindu Traders as at 31st March 2026 is as follows.

Details	Dr (Rs.'000)	Cr (Rs.'000)
Capital (01.04.2025)		16,600
Property, Plant & Equipment (at cost)		
Motor Vehicles	8,000	
Office Equipment	12,000	
Accumulated Depreciation (01.04.2025)		
Motor Vehicles		2,000
Office Equipment		4,000
Cash at Bank	2,500	
Cash in Hand	4,000	
Trade Receivables & Payables	7,500	3,200
Sales & Purchases	12,500	32,000
Inventory (01.04.2025)	6,000	
10% Bank Loan		2,500
Salaries	4,700	
Rent	2,700	
Electricity	1,900	
Commission Received		1,500
	61,800	61,800

The following additional information is also provided.

1. The closing inventory as at 31st March 2026 is valued at cost of Rs. 5,500,000 and its net realizable value (NRV) is Rs. 5,000,000.
2. Depreciation is to be provided on property, plant and equipment using the straight-line method at the following rates.
 - Motor Vehicles: 20% p.a.
 - Office Equipment: 10% p.a.
3. The bank loan was obtained by the business on 1st October 2025.
4. At the end of the year, electricity expenses amounting to Rs. 100,000 for the current year remain unpaid.
5. Rent has been paid for a period of 18 months commencing from 1st April 2025.
6. Out of the commission received during the year, only 60% relates to the current accounting period, while the remaining 40% relates to the next accounting period.
7. The business has decided to write off Rs. 500,000 as bad debts. It is further required to create a provision for doubtful debts at 5% on trade receivables, as no provision existed previously.

Required: 1. Income Statement of Ravindu Traders for the year ended 31st March 2026.

2. Statement of Financial Position of Ravindu Traders as at 31st March 2026.

(20 Marks)

(25 Marks)

Question Two

- a) State the appropriate primary book and source document for each transaction. (05 Marks)

	Transaction
1	Sold goods on credit
2	Returned goods to a supplier
3	Goods returned by a customer
4	Sold goods for cash
5	Purchased goods on credit

- b) The following transactions relate to the business of Mr. Perera for the month of March 2026.

- 1) 01/03/2026: Mr. Perera started business with cash Rs. 500,000, Furniture Rs.800,000 and Office equipment Rs. 700,000.
- 2) 02/03/2026: Owner deposited Rs. 200,000 into the bank.
- 3) 04/03/2026: Purchased goods on credit from Mr. Silva Rs. 120,000.
- 4) 06/03/2026: Sold goods for cash Rs. 60,000.
- 5) 08/03/2026: Sold goods on credit to Mr. Kamal Rs. 90,000.
- 6) 10/03/2026: Mr. Kamal paid Rs. 85,000 in full settlement of his account.
- 7) 12/03/2026: Paid rent by cheque Rs. 20,000.
- 8) 15/03/2026: Returned goods to Mr. Silva Rs. 20,000.
- 9) 18/03/2026: Paid Mr. Silva Rs. 95,000 by cheque in full settlement.
- 10) 22/03/2026: Owner withdrew cash for personal use Rs. 30,000.

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

(20 Marks)

(25 Marks)

Question Three

- a) Fill in the blanks using appropriate accounting concepts.
- 1) The concept that requires business transactions to be recorded separately from the owner is called _____.
 - 2) The assumption that a business will continue to operate in the future is known as _____ concept.
 - 3) According to the _____ concept, revenue should be recorded when it is earned, not when cash is received.
 - 4) Assets are recorded at their original cost under the _____ concept.
 - 5) The concept that requires the same accounting methods to be used from one accounting period to another unless there is a justifiable reason to change is called _____ concept.

(05 Marks)

- b) The following information relates to a company that manufactures and sells a single product.

Selling price per unit = Rs. 120

Variable cost per unit = Rs. 80

Fixed costs per year = Rs. 400,000

Expected sales = 15,000 units

The business is expecting to earn a target profit of Rs. 200,000 per year.

You are required to;

- 1) Calculate the contribution per unit.
- 2) Calculate the Break-Even Point (BEP) in units.
- 3) Calculate the Break-Even Point (BEP) in sales value (Rs.).
- 4) Calculate the margin of safety in units and sales value (Rs.).
- 5) Calculate the number of units that must be sold to achieve the target profit of Rs. 200,000.

(20 Marks)

(25 Marks)

Question Four

- a) In an organization, the annual demand for a particular raw material is 24,000 units. When considering the raw material requirements, the cost of placing one order is Rs. 1,200 and the cost of holding one unit of inventory is Rs. 60. The purchase price per unit is Rs. 500. The organization follows a continuous inventory control system. Calculate the Economic Order Quantity (EOQ). (05 Marks)
- b) The trial balance of Sampath Traders as at 31st March 2026 did not agree, and a suspense account with a credit balance of Rs. 30,000 was created to balance the books. Subsequently, the following errors were discovered:
- 1) Sales of Rs. 15,000 were completely omitted from the books.
 - 2) Purchases of Rs. 8,000 were recorded twice in the purchases account.
 - 3) Cash received from a debtor, Rs. 10,000, was correctly entered in the cash book but not posted to the debtor's account.
 - 4) Rent paid of Rs. 6,000 was debited to the Electricity bill account.

- 5) A cash sale of Rs. 7,500 was incorrectly recorded in the cash book as Rs. 5,700.
- 6) Telephone charges of Rs. 3,200 was undercast by Rs. 1,200.
- 7) Cash received from a debtor for Rs. 7,000 was correctly entered in the cash book but debited to the debtor's account.
- 8) Discount allowed of Rs. 2,000 was posted only to the debtor's account.
- 9) Sales, Rs. 5,500 were incorrectly credited to purchases account instead of sales account.
- 10) A cash sale of Rs. 9,000 was recorded as Rs. 6,000 in sales account.

You are required to;

1. Write the journal entries to rectify the errors
2. Prepare the Suspense Account

(20 Marks)

(25 Marks)

Question Five

a) The Cash Book of Nimal Traders showed a debit balance of Rs. 85,000 as at 31st March 2026. The Bank Statement showed a different balance on the same date. The following reasons for the difference have been identified:

- Cheques issued amounting to Rs. 12,000 were not yet presented for payment.
- Cheques received amounting to Rs. 8,500 were deposited but not yet credited by the bank.
- A standing order for insurance of Rs. 3,000 was not recorded in the Cash Book.
- A direct deposit of Rs. 6,000 made by a customer was recorded by the bank only.
- Bank charges of Rs. 1,200 appeared in the Bank Statement only.

- 1) Prepare the Adjusted Cash Book as at 31st March 2026.
- 2) Starting with the Adjusted Cash Book balance, prepare the Bank Reconciliation Statement as at 31st March 2026.

(10 Marks)

b) A company is considering two investment projects, Project A and Project B. Each project requires an initial investment of Rs. 200,000. The expected cash inflows are as follows.

Year	Project A (Rs.)	Project B (Rs.)
1	80,000	60,000
2	70,000	80,000
3	60,000	90,000
4	50,000	40,000

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

(a) Calculate the Payback Period for Project A and Project B. State which project is more feasible based on the payback period.

(b) Calculate the Net Present Value (NPV) for Project A and Project B. State which project is more feasible based on NPV.

(15 Marks)

(25 Marks)

Total= 100 Marks

-All rights reserved-