



THE OPEN UNIVERSITY OF SRI LANKA
ENTREPRENEURSHIP AND SMALL BUSINESS MANAGEMENT PROGRAMME
FINAL EXAMINATION 2005/2006
MCC 1206 - INTRODUCTION TO ACCOUNTING AND FINANCE
DURATION : TWO HOURS

Date : 25/02/2006

Time : 1.30 p.m. - 3.30 p.m.

Answer only four questions including question No. 01. Non - Programmable calculations are allowed to use.

The following Trial Balance was extracted from the books of "Piyasena Stores" in Nugegoda for the Financial Year ended from 31st March 2005

Trial Balance

Description	Dr.	Cr.
Stock 01/04/2004	675,000	
Carriage in wards	18,900	
Carriage out wards	6,400	
Electricity	26,000	
Stationary	18,000	
Insurance	16,000	
Loan interest	60,000	
Bad debts	11,000	
Return inwards	21,000	
Purchase	1,160,000	
Building	700,000	
Furniture & Fittings	500,000	
Vehicles	600,000	
Computer Equipment	125,000	
Rates	1,800	
Audit fee	15,000	
Legal fee	8,000	
Postage	1,500	
Discounts Allowed	7,400	
Debtors	150,000	

Bills Receivable	600,000	
Bank Balance	565,000	
Cash Balance	80,000	
Capital		1,200,000
Sales		2,000,000
Bank Loan (16% per annum)		800,000
Bills Payable		100,000
Creditors		600,000
Other income		65,500
Discounts Received		24,000
<u>Provision for Depreciation</u>		
Building		70,000
Furniture & Fittings		30,000
Vehicles		60,000
Computer Equipment		12,500
Provision for Doubtful		4,000
	4,966,000	4,966,000

You are given the following additional information

- (i) Stock at on 31/03/2005 was Rs. 350,000/=.
- (ii) Prepaid expenses - Insurance Rs. 1,500/=
Rates Rs. 400/=
- (iii) Accrued expenses as at 31/03/2005
Audit fee Rs. 5,000/=
Electricity Rs. 1,700/=
- (iv) All fixed assets should be depreciated by 10% on straight line method.
- (v) An amount of Rs. 5000/= drawn by the owner for his personal expenses has not been recorded in the books"
- (vi) Provision for the doubtful debts should be 5% from the total debtors.

Prepare the following financial statement

- (a) Trading and Profit and Loss Account for the financial year ended from 31/03/2005.
- (b) Balance sheet as at 31/03/2005.

(40 marks)

- (2) (a) Define "Accounting" and state different tasks involved in Accounting ?
 (b) Explain four (4) different sources, which you can find, fixed capital.
 (c) What are the difficulties faced by small businessmen due to weak cash management ?
 (d) What is the difference between bank drafts and bank loan?
 (e) What are the problems faced by small businessmen due to informal record keeping.

(20 marks)

- (3) The following is an estimated cash receipts and payments of a small business in Nugegoda for the quarter starting from 01st January 2006.

Cash balance as at 01/01/2006 is Rs. 30,000/=

Description	January	February	March
<u>Cash Receipts & payments</u>			
Sales	570,000	650,000	720,000
Other incomes	60,000	90,000	70,000
Cost of raw material	150,000	140,000	170,000
Sales commission received	20,000	50,000	40,000
Sales commission paid	60,000	68,000	80,000
Capital by new partner	-	-	300,000
Salaries & Wages	35,000	35,000	35,000
Sundry expenses	18,000	17,000	21,000
Establishment Expenses	15,000	18,000	20,000
Training of workers	12,000	-	-
Received from Debtors	-	350,000	-
Paid to Creditors	-	-	250,000
Capital expenses for a machine	-	-	600,000
Buy a delivery van	-	-	680,000
Cost of fuel for van	-	-	25,000
Selling & distributions	-	-	18,000
Dividends Received	80,000	-	-
Loan from Nimal	-	300,000	-

Purchase	-	80,000	150,000
Carriage inwards	-	-	8,000
Sales (on promotion)	-	-	275,000

- (a) Using the above data prepare a cash budget for the next quarter starting from 01st January 2006.

(20 marks)

- (4) (a) What do you mean by bank over draft ?
 (b) State three types of stocks that you may find in a factory.
 (c) The following data were extracted from "Gunasena Stores"

Capital	Rs. 1,000,000/=	
Fixed Assets	Rs. 500,000/=	
Current Assets (excluding closing stock)		Rs. 400,000/=
Net Sales	Rs. 1,500,000/=	
Current Liabilities	Rs. 240,000/=	
Closing Stock	Rs. 100,000/=	
Net operating expenses	Rs. 200,000/=	
Long term Investments	Rs. 500,000/=	
Goodwill	Rs. 300,000/=	
Cost of sales	Rs. 800,000/=	

Using the above data calculate the following financial ratios

- (i) Net Profit Ratio.
 (ii) Gross Profit Ratio.
 (iii) Current ratio.
 (iv) Quick ratio.
 (v) Capital yield ratio.

(20 marks)

50,000
8,000
75,000

- (05) (a) Explain the double entry system using an example.
- (b) What are the alternative methods of Depreciation of fixed Assets. Explain using examples.
- (c) What are the major practicing "methods of costing" in SMEs.
- (d) State four accounting concepts.
- (e) What do you mean by "Bank Reconciliation Statement" ? What are the advantages of preparing it ?

(20 marks)

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