



THE OPEN UNIVERSITY OF SRI LANKA
ENTREPRENEURSHIP AND SMALL BUSINESS MANAGEMENT PROGRAMME
FINAL EXAMINATION – 2006/2007
MCC 1206 – INTRODUCTION TO ACCOUNTING & FINANCE
DURATION : TWO HOURS

Date : 28.01.2007

Time : 1.30 p.m – 3.30 p.m

Answer only four questions including question No.01. Non –Programmable calculators are allowed to use.

The following Trial Balance was extracted from the books of “Nimal Enterprises” in Maharagama for the financial year ended from 31st March 2006.

Trial Balance

Description	Dr.	Cr.
Stock 01/04/2005	800,000	
Debtors	200,000	
Discounts allowed	6,000	
Postage	800	
Audit fee	18,000	
Legal fee	7,000	
Rates	1,500	
Vehicles	900,000	
Computer Equipment	75,000	
Furniture and Fittings	300,000	
Building	600,000	
Purchase	1,950,000	
Return Inwards	15,000	
Bad debts	11,500	
Loan Interest	34,800	
Insurance	21,600	
Stationary	19,150	
Electricity	43,170	
Carriage outwards	8,750	
Carriage inwards	26,000	
Cash balance	60,000	
Bank balance	150,000	
Bills receivable	500,000	
Provision for Depreciation		
Vehicles		90,000
Furniture and Fittings		30,000

Building		60,000
Computer Equipment		7,500
Provision for doubtful debts		4,000
Bills payable		120,000
Creditors		350,000
Other income		80,000
Discounts received		3,000
Sales		3,203,770
Capital		1,200,000
Bank Loan (15% per annum)		600,000
	5,748,270	5,748,270

You are given the following additional information.

- (i) Stock as at 31/03/2006 was Rs. 460,000/=
- (ii) Prepaid expenses Rates Rs. 600/=
Insurance Rs. 2,800/=
- (iii) Accrued expenses as at 31/03/2006
Electricity Rs. 2,800/=
Audit fee Rs. 6,000/=
- (iv) Provision for the doubtful debts should be 4% from the debtors.
- (v) All fixed assets should be depreciated by 10% on straight line method.
- (vi) A part of stock valued Rs.40, 000/= has robbed at night on 31st March 2006.
Insurance Co. has agreed to compensate 60% of loss.
- (vii) The owner has taken the goods valued for 5,000/= for the personal use. This has not recorded in the books.

Prepare the following financial statements.

- a) Trading, Profit & Loss Account for the financial year ended from 31/03/2006
- b) Balance sheet as at 31/03/2006

- 02) a) The following data were extracted for the month of December 2006 from Piyasena Iron Works in Maharagama

Stocks as at 01/12/2006.

Raw material	Rs. 150,000
Working Progress	Rs. 78,000
Finished Goods	Rs. 90,000
Raw material purchasing	Rs. 210,000
Carraige inwards	Rs. 14,000
Purchase return	Rs. 21,000
Direct wages	Rs. 45,000
Direct expenses	Rs. 12,000
Factory wages	Rs. 30,000

Factory rent	Rs. 8,000
Fuel	Rs. 6,000
Electricity	Rs. 5,000
Machine – Depreciation	Rs. 2,000
Tools – Depreciation	Rs. 800

Stocks as at 31/12/06	
Raw Material	Rs. 18,000
Work in Progress	Rs. 36,000
Finished goods	Rs. 2,000

Based on above information prepare Manufacturing A/C for the period ended up at 31/12/2006.

- (15 marks)
- b) Explain two major practicing “Methods of Costing” in SMEs
- (05 marks)
- 03) (i) Distinguish between the Trial Balance and the Balance Sheet. (04 marks)
- (ii) You observe that the volume of your business is increasing rapidly. The cashier finds it is difficult to cope with his volume of work. Suggest how you would relieve him of some of his work and still maintain the effectiveness of handling receipts and payments of cash. (05 marks)
- (iii) What is the purpose of preparing a Bank Reconciliation statement? Elaborate on specific advantages of preparing one. (04 marks)
- (iv) List advantages of preparing a cash budget (03 marks)
- (v) State the difference between Equity capital and Debt capital. (04 marks)
- 04) Design a columnar Petty Cash Book and record the following transactions in the format designed by you.
- 2006.12.01 - Received imprest of Rs. 5,000/=
- Paid three wheel hire to bank Rs.80/=
- Casual labor for polishing floor Rs.150/=
- Paid for charity Rs.100/=.
- 2006.12.02 - Purchased stationary Rs.250/=
- Purchased Tea & Sugar for staff Rs. 240/=

- Purchased stamps Rs. 100/=
- 2006.12.03 Dispatched a telegram Rs. 13/=
 Registration of letters Rs. 50/=
 Purchased stapler machine Rs.100/=
 Purchased a serving tray Rs.125/=
- 2006.12.04 Purchased a gift for a visitor Rs. 375/=
 Paid taxi fare to the bank Rs. 100/=
 Purchased cleaning equipments Rs. 225/=
 Given to a beggar Rs. 10/=
- 2006.12.05 Purchased envelopes Rs. 40/=
 Purchased a set of Accounts books Rs.350/=
 Replaced the curtain in office room Rs. 400/=
 Paid for snacks for visitors Rs. 80/=

(20 marks)

- 05) a) What do you mean by capital budgeting? (04 marks)
- b) Why is it necessary for an entrepreneur to have knowledge of capital budgeting? (04 marks)
- c) What are the advantages an entrepreneur gets by a ratio analysis. (04 marks)
- d) What are the ratios that can be used in financial analysis? (04 marks)
- c) What are the factors that should be considered in deciding capital requirements in a firm. (04 marks)

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