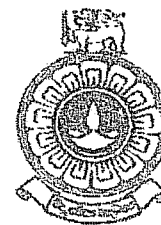


THE OPEN UNIVERSITY OF SRI LANKA  
 CERTIFICATE IN ENTREPRENEURSHIP AND  
 SMALL BUSINESS MANAGEMENT PROGRAMME  
 FINAL EXAMINATION – 2007/2008  
 MCC 1206 – ACCOUNTS AND FINANCE  
 DURATION : TWO (02) HOURS



Date : 27<sup>th</sup> January 2008

Time: 1.30 p.m. – 3.30 p.m.

01. 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 “Ranjith Enterprises” from 31<sup>st</sup> March 2007.

Trial Balance

Description	Dr	Cr
Stock 01.04.2006	900,000	
Cash Balance	80,000	
Bank Balance	180,500	
Debtors	320,000	
Bills Receivable	130,000	
Bad debts	6,000	
Purchase	2,850,000	
Rates	800	
Legal Fee	6,700	
Return Inwards	13,200	
Loan Interest	6,800	
Insurance	7,400	
Carriage Inwards	18,500	
Carriage Outwards	8,400	
Stationary	11,000	
Electricity	23,000	
Building	1,000,000	
Furniture & Fittings	400,000	
Vehicles	700,000	
Postage	1,800	

<b>Provision for Depreciation</b>		
Building		50,000
Furniture & Fittings		20,000
Vehicles		35,000
Capital		1,500,000
Sales		3,500,000
Creditors		300,000
Other Income		57,100
Bills payable		200,000
Provision for Doubtful debts		2,000
Bank Loan (16% per annum)		1,000,000
<b>Total</b>	<b>6,664,100</b>	<b>6,664,100</b>

You are given the following additional information.

- (i) Stock as at 31.03.2007 as at Rs. 400,000/-
- (ii) Pre paid expenses  
Legal fee 3,000/-  
Rates Rs. 200/-
- (iii) Accrued expenses as at 31.03.2007  
Insurance Rs. 2,000/-
- (iv) Provision for the doubtful debts should be 3% from the debtors.
- (v) All fixed assets should be depreciated by 5% on straight line method.
- (vi) The owner has taken the goods valued for Rs. 7,000/- for due personal use. This has not recorded in the books.

You are required to prepare

- a) Trading, Profit & Loss Account for the financial year ended from 31.03.2007.
- b) Balance sheet as at 31.03.2007.

(40 marks)

02. The following data were extracted from Ranjan Stores in Nugegoda.

Stock 01.04.2006 Rs. 1,800,000/-  
Stock 31.03.2007 Rs. 2,200,000/-  
Creditors Rs. 150,000/-  
Debtors Rs.180,000/-  
Bills Payable Rs.70,000/-  
Bills Receivable Rs. 90,000/-  
Purchase Rs. 4,200,000/-  
Total operating expenses Rs, 400,000/-  
Capital Rs. 1,500,000/-  
Net sales Rs. 5,200,000/-

Calculate the following ratios using the above data.

- i. Gross profit ratio
- ii. Net profit ratio
- iii. Current ratio
- iv. Quick ratio
- v. Capital yield ratio

(5x4 marks)

03. i. Distinguish between the Trading Profit and Loss account and the Income and Expenditure account.
- ii. Explain two methods of depreciating fixed assets using examples.
- iii. List advantages and disadvantages of preparing a cash budget.
- iv. State the difference between bank draft and bank over draft.
- v. What are the advantages of maintaining a current account to an entrepreneur?

(5x4 marks)

04. a) The following data were extracted for the month of December 2007.

**Stocks as at 01.12.2007.**

- Raw material Rs. 470,000/-
- Working progress Rs. 120,000/-
- Finished goods Rs.90,000/-
- Factory wages Rs.80,000/-
- Purchase return Rs. 6,000/-
- Carriage inwards Rs.12,000/-
- Direct wages Rs.76,000/-
- Raw material – purchase Rs. 320,000/-
- Direct expenses Rs. 110,000/-
- Fuel Rs. 70,000/-
- Factory rent Rs. 14,000/-
- Electricity Rs. 11,000/-
- Machine – Depreciation Rs. 6,300/-
- Tools – Depreciation Rs. 5,100/-

**Stocks as at 31.12.2007**

- Raw material Rs. 73,000/-
- Working progress Rs. 61,000/-
- Finished goods Rs. 95,000/-

Based on above information prepare manufacturing account for the period ended up at 31.12.2007.

(15 marks)

- b) Explain the differences between
  - i. Cost of consumed and primary cost.
  - ii. Factory cost and cost of production.

(05 marks)

- 05.
- a) Why is it necessary for an entrepreneur to have knowledge of basic accounting.
  - b) What are the factors that should be considered in deciding business expansions?
  - c) Explain the importance of investment diversification to an entrepreneur.
  - d) List down five (05) problems faced by entrepreneurs due to poor practices of cash management.
  - e) Explain the meaning of Micro financing.

(5x4 marks)

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