051

THE OPEN UNIVERSITY OF SRI LANKA
COMMONWEALTH EXECUTIVE MASTER OF BUSINESS/PUBLIC ADMINISTRATION.
FINAL EXAMINATION 2006
MCP1609-ACCOUNTING AND FINANCE
DURATION :THREE (03) HOURS

DATE : 13th JANUARY 2007 TIME :9.30 am - 12.30 pm

IMPORTANT INSTRUCTIONS
Section A - Question 1 is compulsory
Section B - Answer any three (3) questions

SECTION A

1) Given below are the relevant Financial Statements of a Ramsons Ltd. Jeevan a prospective shareholder is concerned how the company has made dividend payments during the year despite a loss incurred.

(a) Comment on the operations of the company during the two years, using appropriate ratios and any other appropriate techniques.
(b) Interpret the cash flow statement prepared for the year ended 31st March, 2006
(c) Advise Jeevan how the dividends were paid, despite a loss.

	2006	2005
	Rs. '000s	Rs. '000s
Revenue	872,425	856,107
Cost of Sales	(803,867)	(698,619)
Gross Profit	68,558	157,488
Other Operating Income	2,282	6,908
Profit on sale of Fixed Assets	113	33,188
Distribution Costs	(45,209)	(63,217)
Administrative Expenses	(28,628)	(25,126)
Other Operating Expenses	(2,525)	(4,625)
Depreciation	(8,481)	(24,344)
Profit/(Loss) from Operating Activities	(13,890)	80,272
Finance Cost	(8,718)	(13,477)
Profit/(Loss) from Ordinary Activities before Tax	(22,608)	66,795
Income Tax	(94)	(1,000)
Net Profit/(Loss) for the year	(22,702)	65,795
BALANCE SHEET		
Fixed Assets	154,246	170,005
Investments	122,507	86,892
	276,753	256,897
Current Assets		
Inventories	63,988	62,286
Trade Debtors	91,666	102,159
Less: Provision for Doubtful Debts	(32,000)	(30,000)
Other Debtors	191,048	178,887
Prepayments	8,847	2,661
Cash and Bank Balances	4,043	20,671
	327,592	336,664
Total Assets	604,345	593,561

EQUITY & LIABILITIES		
Capital & Reserves		
Issued Capital - Ordinary Shares of Rs. 10/- each	160,000	160,000
Reserves	99,370	99,382
Accumulated Profits	17,396	56,086
	276,766	315,468
Long Term Liabilities	88,595	60,470
Current Liabilities		
Trade Creditors	119,630	137,928
Other Creditors	96,273	49,399
Dividends payable	0	16,000
Bank Overdraft	23,081	14,296
	238,984	217,623
Total Equity & Liabilities	604,345	593,561

	2005	**2004**
CASH FLOW STATEMENT	Rs. '000s	Rs. '000s
Cash flows from/(used) in Operating Activities	(22,608)	66,794
Adjustments for:		
Depreciation	8,481	24,344
Provision for bad & doubtful debts	2,000	34,882
Profit on sale of Fixed Assets	(113)	(33,188)
Finance Cost	8,718	13,477
Other adjustments	36	4,319
Operating Profit before Working Capital changes	(3,486)	110,628
(Increase)/Decrease in Inventories	(1,702)	(20,817)
(Increase)/Decrease in Trade & other receivables	(1,668)	(35,460)
Increase/(Decrease) in Trade & other payables	28,576	(23,375)
Cash Generated from Operations	21,720	30,976
Finance costs paid	(8,718)	(13,477)
Income Tax paid	(6,166)	0
Net Cash flow from Operations	6,836	17,499
Cash Flows used in Investing Activities		
Purchase of Investments	(35,615)	0
Acquisition of Fixed Assets	(7,625)	(23,979)
Proceeds from sale of Fixed Assets	255	85,246
Dividends Received	44	31
	(36,105)	78,797
Cash Flows used in Financing Activities		
Dividends Paid	(16,000)	0
Proceeds from New Loans	40,426	53,364
Repayment of Loans	(13,733)	(56,611)
	10,693	(3,247)
Net Increase/(Decrease) in Cash & Cash equivalents during the year	(25,412)	75,550
Cash & Cash Equivalents at beginning of the year	6,374	(69,176)
Cash & Cash Equivalents at end of the year	**(19,038)**	**6,374**
Other Information :		
Market Value per Share	15.75	16.00

(40 marks)

SECTION B

2) (i) Drake Ltd's cost estimates for the current year are expected to be:

	Rs.	Rs.
Direct material		7,000,000
Direct labour		6,000,000
Factory indirect expenses:		
Variable	4,500,000	
Fixed	500,000	5,000,000
Administration expenses		1,200,000
Selling and distribution expenses		600,000
Finance expenses		200,000
		20,000,000

It was expected that 2,000,000 units would be manufactured and sold, the selling price being Rs11/- each.

Suddenly during the year two enquiries were made at the same time which would result in extra production being necessary. They were an:

Enquiry from Jones Ltd.

An existing customer said that he would take an extra 100,000 units, but the price would have to be reduced to Rs 9/- per unit on this extra 100,000 units. The only extra costs that would be involved would be in respect of variable cost.

Enquiry from Swan Products Ltd.

A new customer would take 150,000 units annually. This would mean extra variable costs and also an extra machine would have to be bought costing Rs 1,500,000 which would last for 5 years before being scrapped. It would have no scrap value. Extra running costs of this machine would be Rs 600,000 per annum. The units are needed for an underdeveloped country and owing to currency difficulties the highest price that could be paid for the units was Rs 10/- per unit.

On this information, and assuming that there are no alternatives open to Drake Ltd, should the company accept or reject these orders? Justify your answer with appropriate calculations.

(15 marks)

(ii) "Fixed costs are not always fixed".
Would you agree/disagree with the statement explaining why? **(5 marks)**

(Total 20 marks)

3) (i) Bruvens Ltd manufactures a single product, acoustic guitars, which it sells for Rs 400/- each. The material costs for each guitar are Rs 78/-. The guitars are handmade. It takes seven direct labour hours to make each guitar. Bruvens Ltd pays its direct workers Rs 18/- per hour. Budgeted fixed costs are Rs 8,500/- per week. Demand is high so all the output is sold immediately.

Required to compute

(a) the variable costs per guitar;
(b) the contribution per guitar;
(c) the breakeven output per week;
(d) the output required to achieve a profit of Rs 10,000/- per week.

(15 marks)

(ii) Briefly explain, how a manager could use the *"Break-even point"* and *"Margin of Safety"* to fulfill their responsibilities.

(5 marks)
(Total 20 marks)

4) **(i)** Given the following information from the books of Beta Ltd., as at 31st December, 2005, you are required to prepare a Profit & Loss a/c, and Balance sheet for the company.

Stocks	19,431
Cash at bank	1,000
Bank overdraft	7,423
Debtors	17,158
Creditors	9,538
Fixed assets - at cost	65,098
Accumulated Depreciation	16,751
Depreciation for the year	6,984
Sales - Credit	89,649
- Cash	57,053
Stock on 1st Jan. 2005	5,200
Purchases	90,674
Stock on 31st Dec. 2005	19,844
Rent	8,202
Salaries	22,985
Stationery	7,547
Other operational expenses	2,848
Loan - repayable 31st Dec. 2007	10,000
Ordinary Share Capital	30,000
Retained profits as at 1st Jan. 2005	6,869

(20 marks)

5) Discuss three concepts of accounting, and their application in providing useful information to users of Financial statements; giving examples of your choice.

(20 marks)

6) A draft Balance Sheet and Profit & Loss a/c was presented by you, to the Board of Directors. The directors have had no training in accounting and have raised the following points and questions on your submission.

(a) "You say that we have performed well in the last year, but you see that our cash position has gone from worse to worse".

(b) "Motor Vehicles are shown as Fixed Assets. Isn't that ridiculous. They are the most mobile. Why have you charged such a large amount as depreciation. Can we not reduce on these figures. Further, the depreciation figure in the Profit & Loss A/c, does not agree with that in the Balance sheet".

(c) "I have seen a statistic called, EPS in the published accounts of our competitors. Does it mean anything to us".

(d) "We are marketing a strong brand by the name of 'Heena' in the local market. I am sure it has some value. Why have not shown its value in the accounts?"

(e) "Debtors and stocks have significantly increased. Would this affect our performance in any way?'

(20 marks)