

**THE OPEN UNIVERSITY OF SRI LANKA
COMMONWEALTH EXECUTIVE MASTER OF BUSINESS/PUBLIC
ADMINISTRATION
FINAL EXAMINATION – APRIL/MAY 2011
MCP 1609: ACCOUNTING & FINANCE**



DURATION: THREE (03) HOURS

Date : 15th May 2011

Time : 9.30 a.m. – 12.30 p.m.

This paper consists of seven (07) questions.

Answer any Five (05) questions.

Question No.1

- a) What is meant by accounting and its prime objective? (02 marks)
- b) Distinguish between Financial Accounting and Management Accounting (04 marks)
- c) Explain four (04) key qualitative characteristics of financial accounting information. (04 marks)
- d) Explain briefly the relationship that exists among shareholders, directors and auditors. (04 marks)
- e) Mention (03) duties of a Specified Business Enterprises (SBEs) regarding preparation and presentation of financial statements. (03 marks)
- f) State three (03) powers vested on Sri Lanka Accounting and Auditing Standard Monitoring Board (SLAASMB). (03 marks)

(Total 20 marks)

Question No.2

Following transactions took place relating to Alpha Ltd during the month of April 2011

1. Alpha Ltd issued 50,000 ordinary shares at a price of Rs.40 and raised Rs.2,000,000 as its stated capital
2. Purchased a building for Rs.800,000
3. Purchased goods for Rs.200,000
4. Purchased goods on credit for Rs.100,000
5. Obtained a bank loan of Rs.500,000.
6. Goods sold for Rs.250,000 (cost Rs.120,000)
7. Purchased a machine for Rs.600,000.
8. Goods sold on credit Rs.150,000 (cost Rs.50,000)
9. Cash paid to creditors Rs.50,000 discount received Rs.5,000.
10. Cash received from trade debtors Rs.100,000 discount allowed Rs.4,000.
11. Salary paid Rs.20,000.
12. Loan installment paid Rs.50,000 including interest of Rs.5000.
13. Depreciation of machine for the month is 2% on cost.
14. A dividend per share of Rs.2 was paid for ordinary shareholders

You are required to,

- i. Record the above transactions in the following descriptive accounting equation

$$\text{Buildings} + \text{Machinery} + \text{Stock} + \text{Debtors} + \text{Cash} = \text{Equity} + \text{Bank Loan} + \text{Creditors}$$

- ii. Prepare Balance Sheet of Alpha Ltd as at 30 April 2011.
 iii. Prepare Income Statement of Alpha Ltd for the month of April 2011.
 iv. Prepare Cash Flow Statement of Alpha Ltd for the month of April 2011

(Total 20 Marks)

Question No.3

- a) Mention four (04) limitations in accounting ratio analysis as a tool for analyzing financial statements. (04 marks)
 b) The income statements and the balance sheets of Lanka Tex PLC and Lanka Apparel PLC are given below.

	Rs.'000	
	Lanka Tex	Lanka Apparel
Sales turnover	360,000	400,000
Cost of sales	(150,000)	(140,000)
Gross Profit	210,000	260,000
Administrative expense	(40,000)	(30,000)
Marketing cost	(20,000)	(40,000)
Finance cost	(10,000)	(25,000)
Profit before tax	140,000	165,000
Tax expenses	(32,000)	(30,000)
Profit after tax	108,000	135,000
Dividend Paid	(30,000)	(50,000)
Retained Profit	78,000	85,000
	Lanka Tex	Lanka Apparel
Assets		
Non-current Assets		
Land and buildings	215,000	340,000
Machinery	45,000	35,000
Motor vehicles	25,000	20,000
Current Assets		
Stocks	6,000	10,000
Debtors	1,500	4,000
Cash at bank	2,500	6,000
Total Assets	295,000	415,000
Equity and Liabilities		
Share capital (10,000,000 shares)	100,000	100,000
Retained profit	128,000	185,000
Long term liabilities		
Bank loans	50,000	125,000
Current liabilities		
Creditors	17,000	10,000
Total equity and liabilities	295,000	415,000
Market price per share	Rs.60	Rs.80

You are required to,

Comment on financial performance and financial position of Lanka Tex and Lanka Apparel by computing appropriate accounting ratios. (16 marks)

(Total 20 marks)

Question No. 4

- a) What is meant by Operating Leverage? Briefly explain (04 marks)
- b) "Relatively a high degree of operating leverage is good for a business firm". Do you agree? Briefly explain. (04 marks)
- c) The income statements of Northern Beach Hotel and Southern Beach Hotel for the year ended 31 March 2011 are given below.

	Northern Beach	Southern Beach
Sales turnover	500,000	500,000
Cost of sales	(300,000)	(200,000)
Gross Profit	200,000	300,000
Administrative expense	(50,000)	(50,000)
Marketing cost	(30,000)	(150,000)
Net Profit	120,000	100,000

You are required to,

- i. Calculate the degree of operating leverage of each company. (04 marks)
- ii. If it is expected that the tourism industry will perform well in the future and the expected sales growth in the coming year is to be 100%, explain how it would affect the profit of each company? (08 marks)

(Total 20 marks)

Question No. 5

- a) Explain the following cost terms with suitable examples
 - i. Direct Cost
 - ii. Indirect Cost/ Overhead Cost
 - iii. Fixed Cost
 - iv. Variable Cost(10 marks)
- b) What is meant by Break Even Point (BEP)? How useful is this concept for business decision making? Explain. (06 marks)
- c) What is Margin of Safety? Explain its importance for a business firm. (04 marks)

(Total 20 marks)

Question No. 6

Neat Fashion PLC is engaged in apparel industry. Following information is relevant to the company for the quarter ended 31 March 2011:

	Rs.
Cost of fabric	1,600,000
Machine operators salary	800,000
Factory rent	80,000
Production supervisor's salary	120,000
Depreciation of machines	100,000
Production managers salary	200,000
Factory electricity and other expenses	100,000
Marketing expenses	300,000
Administrative expenses	200,000

Other information is as follows

Number of shirts produced	10,000
Number of shirts sold	8,000

It is the company's policy to keep a gross margin of 50% on cost

You are required to,

- Calculate prime cost and the total production cost for the quarter. (04 marks)
- Calculate Cost per unit of a shirt. (02 marks)
- Calculate Cost of sale for the period (04 marks)
- Calculate Value of the closing stock (at cost) (04 marks)
- Prepare an Income Statement for the quarter ended 31 March 2011. (06 marks)

(Total 20 marks)

Question No. 7

Lanka Constructors PLC is engaged in manufacturing cement bricks. Following information is relevant for the quarter ended 31 March 2011.

Variable cost per unit

Cost of sand	Rs.10
Cost of cement	Rs.12
Cost of metal chips	<u>Rs. 8</u>
Cost per unit	Rs.30

Selling price per unit is Rs.50.

Fixed manufacturing and non manufacturing overhead cost for the quarter is Rs.120,000
Number of units (cement bricks) sold during the period is 10,000.

You are required to,

- a) Calculate the contribution per unit. (02 marks)
- b) Calculate the sales level in units and value at Break Even Point (BEP). (04 marks)
- c) Calculate Margin of safety in units (02 marks)
- d) Prepare an income statement as per the current sales level (04 marks)
- e) What is the required number of units to be sold, if the firm wants to achieve a target profit of Rs.200,000 for the quarter. (03 marks)
- f) Due to increase in general price levels cost of cement and cost of metal chips increased by 25% and consequently Lanka Constructors increased the selling price by 20%.
 - i. What is the revised contribution per unit of a cement brick (03 marks)
 - ii. What is the revised Break Even Point (BEP) in units (02 marks)

(Total 20 marks)

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