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THE OPEN UNIVERSITY OF SRI LANKA
COMMONWEALTH EXECUTIVE MASTERS DEGREE PROGRAMME
FINAL EXAMINATION - 2012
ACCOUNTS AND FINANCE - MCP 1609
DURATION THREE (03) HOURS

Date : 16th December 2012	**Time: 9.30a.m – 12.30p.m**

- ***This paper consists of six (06) questions.***
- ***Answer five (05) questions only.***
- ***Time allowed three (03) hours***
- ***Non programmable calculators are allowed.***

Question No.1

a) Explain the role of accounting in the context of management decision making.

b) Discuss the differences between the financial accounting and management accounting

c) As per the Framework of Financial Accounting, define the following terms with suitable examples

- Assets
- Liabilities

d) Explain the role of directors and auditors in preparing and presenting the financial statements.

(20 marks)

Question No.2

a) State five (05) types of business enterprises that should prepare and present their financial statements according to Sri Lankan Accounting Standards.

b) State four (04) duties of a Specified Business Enterprises (SBEs) regarding preparation and presentation of financial statements.

c) State powers vested on Sri Lanka Accounting and Auditing Standard Monitoring Board (SLAASMB) with respect to financial statements prepared by SBEs.

d) State five types of users of accounting information with their intended use.

(20 marks)

Question No.3

The balance sheet of Bonita Ltd as at 01 April 2012 is given below

Stated Capital	15,000	Machinery	12,000
Bank loan	4,000	Stock	5,000
Creditors	1,000	Debtors	2,000
		Cash	1,000
	20,000		**20,000**

Transactions occurred during the month of April 2012 are given below.

1. Purchased goods for Rs.3,000
2. Obtained a bank loan of Rs.1,000.
3. Purchased a machine for Rs.1,000
4. Purchased goods on credit for Rs.2,000
5. Goods sold for Rs.3,500 (cost of the goods was Rs.2,000)
6. Goods sold on credit Rs.3,000 (cost of the goods was Rs.1,500)
7. Cash paid to creditors Rs.1,500
8. Cash received from trade debtors Rs.3,000
9. Administrative expenses paid Rs.500.
10. Marketing expenses paid Rs.400
11. Loan installment paid Rs.200 including interest of Rs.50.
12. Dividend paid Rs.500

i. Record the open balances and the above transactions in the following accounting equation.

Machinery + Stock + Debtors + Cash = Equity + Bank Loan + Creditors

ii. Prepare income statement of Bonita Ltd for the month ending 30th April 2012 and Balance Sheet at 30th April 2012.

(Total 20 Marks)

Question No. 4

a. State in brief the objective and meaning of financial statement analysis.

b. What are the advantages and disadvantages of using accounting ratios as a tool of analyzing financial statements?

c. Mr. Perera expects to invest his money in the share market, but has no idea as to what procedure he should follow when purchasing shares from the Combo Stock Exchange (CSE). Advice Mr. Perera the procedures (Steps) he has to follow in purchasing shares from the CSE.

d. What are the factors that an investor should consider when investing in the share market?

e. State the advantages of investing in the share market. **(20 marks)**

Question No.5

The income statements and the balance sheets of Southern PLC for the years 2011 and 2012 are given below.

Income Statement	**Rs.'000**	**Rs.'000**
	2012	**2011**
Sales turnover	500,000	400,000
Cost of sales	(200,000)	(140,000)
Gross Profit	300,000	260,000
Administrative expense	(40,000)	(30,000)
Marketing cost	(20,000)	(40,000)
Finance cost	(10,000)	(25,000)
Profit before tax	230,000	165,000
Tax expense	(50,000)	(30,000)
Profit after tax	180,000	135,000
Dividend Paid	(80,000)	(50,000)
Retained Profit	100,000	85,000

Balance Sheet	Rs.'000	Rs.'000
	2012	2011
Assets		
Non-current assets		
Land and buildings	365,000	340,000
Machinery	45,000	35,000
Motor vehicles	25,000	20,000
Current assets		
Stock	13,000	10,000
Debtors	1,500	4,000
Cash at bank	2,500	6,000
Total Assets	**452,000**	**415,000**
Equity and liabilities		
Stated capital (10,000,000 shares)	100,000	100,000
Retained profit	285,000	185,000
Long term liabilities		
Bank loan	50,000	125,000
Current liabilities		
Creditors	17,000	10,000
Total equity and liabilities	**452,000**	**415,000**
Market price per share	Rs.60	Rs.40

Required

1. Compute the following comparative ratios for the given two years

   - Gross profit ratio
   - Net profit ratio (based on profit after tax)
   - Return on equity
   - Current ratio
   - Quick asset ratio
   - Debt to equity ratio
   - Debt to total assets
   - Earnings per share (EPS)
   - Dividend per share (DPS)
   - Price earnings ratio (PE)

2. Based on the above ratios comment on the firm's financial result (profitability) and financial position.

(20 marks)

Question No.6

a. What is meant by operating leverage and financing leverage?

b. Briefly explain how a firm's operating leverage would affect its profit during economic crisis and growth periods

c. The income statements of Alpha PLC and Beta PLC for the year ending 31st March 2012 are given below.

	Alpha	Beta
Sales	1,000,000	1,000,000
Cost of sales	(400,000)	(600,000)
Gross Profit	600,000	400,000
Administrative expense	(300,000)	(150,000)
Marketing expenses	(200,000)	(50,000)
Net Profit	100,000	200,000

(It is assumed cost of sales is variable and administrative and marketing costs are fixed)

i. Calculate the degree of operating leverage of Alpha and Beta.

ii. Sales are expected to double in the next year as a result of rapid economic growth. Explain how this expected economic condition would affect the profit of Alpha and Beta in the following year.

(Total 20 marks)

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Formula Sheet

Gross profit ratio	Gross profit/Sales *100
Net profit ratio (based on profit after tax)	Net profit after tax/Sales *100
Return on equity	Net profit after tax/(Stated capital +Retained profit)
Current ratio	Current assets/Current liabilities
Quick asset ratio	(Current assets-Stock)/Current liabilities
Debt to equity ratio	Debt capital/Equity capital
Debt to total assets	(Noncurrent liabilities + current liabilities)/ Total assets
Earnings per share (EPS)	Profit after tax/Number of ordinary shares issued
Dividend per share (DPS)	Dividend paid/Number of ordinary shares issued
Price earnings ratio (PE)	Market Price per share / Earnings Per Share