

**THE OPEN UNIVERSITY OF SRI LANKA
COMMONWEALTH EXECUTIVE MASTER OF BUSINESS/PUBLIC
ADMINISTRATION
FINAL EXAMINATION – DECEMBER 2013
MCP 1609 – ACCOUNTING AND FINANCE
DURATION : THREE (03) HOURS**



Date : 18.12.2013

Time : 9.30 a.m. – 12.30 p.m.

Key Instructions

- This paper consists of six (06) questions.
- Answer five (05) questions only.
- Use of non programmable calculators is allowed.
- Time allowed three (03) hours

Question No.1

- a) Briefly describe the role of accounting in management decision making process. *(4 marks)*
 - b) Discuss the nature scope and the objective of financial accounting and management accounting. *(4 marks)*
 - c) You are the head of finance division of Lanka Insurance PLC which is a listed company in the Colombo Stock Exchange. As per Sri Lanka Accounting and Auditing Standards Act No.15 of 1995, state your company's responsibilities with regard to preparation and presentation of financial statements. *(4 marks)*
 - d) "Shareholders, Directors and Auditors, as a whole, are responsible for the preparation and fair presentation of financial statements in line with Sri Lanka Accounting Standards". Do you agree? Discuss. *(4 marks)*
 - e) Briefly explain the nature and the objective of the following professional services
 - i. Financial Statements Audit
 - ii. Forensic Accounting *(4 marks)*
- (Total 20 marks)**

Question No.2

- a. "Human resource is treated as an asset for financial reporting purposes". Do you agree with this statement? Discuss.
 - b. State how a firm may increase its equity in order to enhance the value of the firm.
 - c. The amount of total assets of a businessman provides conclusive evidence that he has a strong financial position. Do you agree? Discuss.
 - d. Mr. Dissanayake, one of your friends expects to invest his money in the share market. He has approached to you to discuss the procedures that have to be followed to purchase shares from the stock market. Advice Mr. Dissanayake as to how to open a Central Depository System (CDS) account and to purchase shares from the share market.
 - e. What are the internal and external sources of information available for a manager that will facilitate in making decisions? *(5 x 4 marks)*
- (Total 20 marks)**

Question No.3

The statement of financial position of Lanka Apparel Ltd as at 01 April 2013 is given below.

Assets	Rs.
Noncurrent assets	
Property Plant and Equipment (PPE)	1,000,000
Current assets	
Inventory (Stock)	500,000
Trade Receivables (Debtors)	300,000
Cash and Bank (Cash)	200,000
Total assets	2,000,000
Equity and liabilities	
Equity	1,200,000
Noncurrent liabilities	
Bank loan	600,000
Current liabilities	
Trade payables (Creditors)	200,000
Equity and total liabilities	2,000,000

Following transactions occurred during the month ended 30 April 2013.

1. Loan Instalment paid (including interest of Rs.20,000) was Rs. 60,000.
2. Credit Sales Rs.500,000, the cost of which was Rs.200,000.
3. Cash sales Rs.400,000 the cost of sales were 220,000.
4. Credit purchase Rs.340,000 of goods
5. Purchase of machinery Rs.200,000
6. Payments to creditors Rs.240,000
7. Depreciation of machinery for the period should be 1% on cost.
8. Cash collected from Debtors, after allowing cash discount of Rs.10,000, was Rs.200,000
9. An irrecoverable debt balance of Rs.20,000 should be written off as bad debt
10. Other administrative expenses paid Rs.60,000
11. Marketing Expenses Rs.40,000
12. Dividend paid Rs.100,000.

Required.

Prepare the following statements of Lanka Apparel Ltd. for the month ended 30th April 2013

1. Statement of income
2. Statement of financial position as at 30 April 2013
3. Statement of cash flow

Note: you may record the above transactions in a suitable accounting equation.

(Total 20 Marks)

Question No.4

- a. "In a booming economy, relatively a high degree of operating leverage will be beneficial to a business" Do you agree? Discuss. (2 marks)
- b. The income statement of Mega Ltd. and Buddy Ltd. that engaged in footwear industry are given below.

	<i>Mega Ltd.</i>	<i>Buddy Ltd.</i>
<i>Revenue</i>	8,000,000	8,000,000
<i>Cost of sales</i>	(2,000,000)	(5,000,000)
<i>Gross profit</i>	6,000,000	3,000,000
<i>Distribution cost</i>	(2,500,000)	(1,000,000)
<i>Administrative expenses</i>	(2,000,000)	(400,000)
<i>Other expenses</i>	(500,000)	(100,000)
<i>Profit before interest and tax</i>	1,000,000	1,500,000

Note- It is assumed cost of sales is variable and all operating expenses are fixed

Required

- i. Compute the degree of operating leverage of each company.
 - ii. If it is expected that sales will grow by 25% in the next year, how would it affect to the operating profit of each company? (6 marks)
- c. The statement of income and the statement of financial position of Lanka Leather PLC for the year 2013 are given below.

Statement of Income for the year ended 31 March 2013

	<i>Rs. '000</i>
<i>Sales</i>	80,000
<i>Cost of sales</i>	(32,000)
<i>Gross profit</i>	48,000
<i>Distribution cost</i>	(16,000)
<i>Administrative expenses</i>	(8,000)
<i>Interest</i>	(4,000)
<i>Profit before tax</i>	20,000
<i>Tax expenses</i>	(4,000)
<i>Profit after tax</i>	16,000

Statement of financial position as at 31 March 2013

	<i>Rs. '000</i>
<i>Assets</i>	
<i>Noncurrent assets</i>	
<i>Property plant and equipment</i>	60,000
<i>Current assets</i>	
<i>Inventory</i>	4,000
<i>Trade Debtors</i>	8,000
<i>Cash and bank</i>	3,000
<i>Total assets</i>	75,000
<i>Equity and Liabilities</i>	
<i>Stated capital</i>	30,000
<i>Retained profit</i>	26,000
<i>Noncurrent liabilities</i>	
<i>Bank loan</i>	5,000
<i>Current liabilities</i>	
<i>Trade payables</i>	14,000
<i>Equity and total liabilities</i>	75,000

Following accounting ratios are available for the prior period (2012)

Gross profit ratio	48%
Current ratio	2.5 : 1
Quick asset ratio	1.2 : 1
Inventory turnover	8 times
Debtors' turnover	7 times
Interest cover	4 times

Required

1. Calculate the ratios given above (year 2012), for the year 2013. (6 marks)
 2. Give two possible reasons for the each variations, if any, in following ratios in relation to year 2012 and 2013:
 - Gross profit ratio
 - Inventory turnover ratio (4 marks)
 3. Comment on the firm's short term and long term financial position (2 marks)
- (Total 20 Marks)**

Question No.5

You are the cost accountant of Lanka Tex Ltd that engages in manufacturing a branded jean "Lee & Mee". Following information is relevant to the Lanka Tex for the quarter ended 30 September 2013.

	Rs.
Cost of fabric consumed	4,600,000
Factory manager's salary	600,000
Supervisor's Salary	150,000
Machine operators salary	1,800,000
Electricity	250,000
Factory rent	240,000
Depreciation of factory machine	160,000
Administrative expenses	220,000
Sales and Distribution cost	480,000
Finance Cost	100,000
Other factory overhead	250,000

Other information

- 80% of the electricity cost relevant to the factory and the balance is relevant to the administrative department.
- Number of jeans produced during the period was 10000 and 80% of which was sold
- It is the firm's policy to keep a gross profit margin of 50% on cost when setting the selling price

Required

- a. Classify the above costs as direct cost, manufacturing overhead and non manufacturing overhead costs (4 marks)
- b. Compute the total manufacturing cost for the quarter and cost per jean. (7 marks)
- c. Selling price per unit (1 marks)

- d. Value of the closing stock (2 marks)
 e. Statement of income for the quarter ended 31 December 2013. (6 marks)
(Total 20 Marks)

Question No.6

Following information relates to Lanka Apparel that manufactures a branded T-shirt "Lee vs Lee".

Cost of fabric per T-shirt	Rs.300
Direct labour cost per T-shirt	Rs. 60
Sales commission per T-shirt	Rs.40
Production managers salary	Rs.250,000
Production supervisor's salary	Rs.100,000
Depreciation of machinery	Rs.100,000
Other factory overhead cost	Rs.400,000
Marketing staff monthly salary	Rs.500,000
Administrative expenses	Rs.250,000
Selling price per T-shirt	Rs.800

Total monthly capacity – 20,000 T-shirts, Current capacity utilization level is 60% of the total capacity.

Required

- Contribution per unit (1 marks)
- Calculate the output and the total revenue at the Break Even Point (BEP). (3 marks)
- Margin of safety (2 marks)
- Income statement at current capacity level (4 marks)
- Number of units required to be sold to make a net profit of Rs.4,000,000 (2 marks)
- To achieve BEP output at 3000, by how much should the firm reduce its monthly fixed costs? (3 marks)
- "A company may not sell a product with a negative contribution" Do you agree with this statement? Discuss. (2 marks)
- Company is currently producing its products to the local market. It has received a special order to supply 5000 T-shirts a month for an overseas customer at Rs.500 per T-shirt. Do you accept this special order? Justify your answer with calculations. (3 marks)

(Total 20 Marks)