

THE OPEN UNIVERSITY OF SRI LANKA
COMMONWEALTH EXECUTIVE MASTER OF BUSINESS/ PUBLIC
ADMINISTRATION
FINAL EXAMINATION
MCP 1609 – ACCOUNTING AND FINANCE
DURATION - 03 HOURS



Date : 19th December 2015

Time : 09.30 am- 12.30 pm

Instructions: Answer all five (05) questions.

Numbering of the answers in your answer script should follow the numbers assigned to the questions in the paper.

Illegible hand writing is liable to loose marks.

Use of non-programmable calculators are allowed.

Question No. 01

- (a) Briefly discuss the role of accounting in relation to managerial decision making. **(04 Marks)**
- (b) “The financial statements are an output of accounting system of a business organization. Users of financial statements are diverse, having different needs of accounting information.”
- (i) Briefly explain the objective of financial statements. **(02 Marks)**
- (ii) State the components of financial statements and explain briefly type of information presented in each component. **(08 Marks)**
- (iii) State three (03) users of financial information and what are their information needs. Explain **(06 Marks)**

Question No. 02

Arali Plc has engaged in a business for a number of years as a retailer of a wide variety of kitchen appliances. The company operates from a number of stores across the country. The financial statements for the year ended 31st March 2015 have recently been published, and extracts are provided below, together with comparative figures for the previous two years.

<i>(Amounts are in rupees millions)</i>	2013	2014	2015
Statement of Income for the year ended 31st March;			
Sales	1,850	2,200	2,500
Cost of sales	(1,250)	(1,500)	(1,750)
Gross profit	600	700	750
Operating costs	(505)	(580)	(610)
Profit from operations	95	120	140
Finance costs	(25)	(60)	(110)
Profit before tax	70	60	30
Income tax	(23)	(20)	(10)
Net profit	47	40	20

Statement of Financial Position as at 31st March;			
Non-current assets			
Property, plant and equipment	278	290	332
Current assets			
Inventory	400	540	620
Trade receivables	492	550	633
Cash	12	12	15
Total assets	1,182	1,392	1,600
Equity			
Stated capital – ordinary shares	90	90	90
Reserves	252	262	262
Non-current liabilities			
Long-term loans	200	200	320
Current liabilities			
Trade payables	300	300	310
Income tax payable	20	20	8
Bank overdraft	320	520	610
Total Equity and Liabilities	1,182	1,392	1,600

You are required to;

(a) Calculate the following financial ratios for the three years given above.

- | | |
|-------------------------|--|
| (i) Gross Profit Margin | (vi) Quick ratio |
| (ii) Net Profit Margin | (vii) Debtors collection period |
| (iii) Return on Assets | (viii) Total assets turnover |
| (iv) Return on Equity | (ix) Debt-to-equity ratio |
| (v) Current ratio | (x) Long-term debt-to-total assets ratio |

(10 Marks)

(b) Discuss the profitability, liquidity, solvency and efficiency of the company using financial ratios.

(10 Marks)

Question No. 03

(a) (i) Explain the difference between contribution and profit. (03 Marks)

(ii) Briefly explain what is meant by margin of safety and how it is useful in managerial decision making. (05 Marks)

- (b) A company is planning to introduce a new product to the market at a price of Rs 100/-. The following are the costs estimated for manufacturing and selling of this new product during the next financial year.

	Rs
Variable cost per unit;	
- Raw material cost	45
- Direct labour	30
Total variable cost per unit	75
Fixed cost for a year;	
- Fixed manufacturing cost	455,000
- Fixed selling and distribution cost	125,000

You are required to answer the following questions using the information given above.

- (i) What is the new product's breakeven point in units sold and sales value for the next year?
(02 Marks)
- (ii) How many units of this product would have been sold in the next year to earn a profit of Rs 52,000?
(02 Marks)
- (iii) What are the break-even quantity and quantity to be sold to earn a profit of Rs.66,000 in the next year under each of the following circumstances?
- Wages paid to direct labour is increased by 10%.
- A promotional campaign is carried out for a cost of Rs 75,000
(08 Marks)

Question No. 04

- (a) "Capital expenditure differs from day-to-day revenue expenditure and is subject to a rigorous process of appraisal and control." Discuss this statement.
(04 Marks)
- (b) A company is considering introducing a new product to the market, which is expected to exist for a period of four years. The estimated cost and profit from this new product are provided below.

	(Rs'000)
Capital cost of assets	80,000
Estimated net profit;	
Year 1	10,000
Year 2	15,000
Year 3	25,000
Year 4	15,000

The capital assets would be depreciated at the rate of 18.75% on cost of the capital assets and will have a residual value of Rs 20 million. The cost of capital of the company is 15% per annum.

- (i) Determine the Payback, Accounting rate of return, Net present value and Internal rate of return of the project. **(12 Marks)**
- (ii) Assess whether the project would be undertaken. **(04 Marks)**

Question No. 05

- (a) Explain the term “Working Capital Management” and its importance for a business organization. **(06 Marks)**
- (b) Discuss three (03) factors which determine the investment in working capital of a business organization. **(06 Marks)**
- (c) Explain different practices that a business firms can use when financing its working capital requirements. **(08 Marks)**

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PRESENT VALUE TABLE

Present value of \$1, that is $(1+r)^{-n}$ where r = interest rate; n = number of periods until payment or receipt.

Periods (n)	Interest rates (r)									
	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239
16	0.853	0.728	0.623	0.534	0.458	0.394	0.339	0.292	0.252	0.218
17	0.844	0.714	0.605	0.513	0.436	0.371	0.317	0.270	0.231	0.198
18	0.836	0.700	0.587	0.494	0.416	0.350	0.296	0.250	0.212	0.180
19	0.828	0.686	0.570	0.475	0.396	0.331	0.277	0.232	0.194	0.164
20	0.820	0.673	0.554	0.456	0.377	0.312	0.258	0.215	0.178	0.149

Periods (n)	Interest rates (r)									
	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833
2	0.812	0.797	0.783	0.769	0.756	0.743	0.731	0.718	0.706	0.694
3	0.731	0.712	0.693	0.675	0.658	0.641	0.624	0.609	0.593	0.579
4	0.659	0.636	0.613	0.592	0.572	0.552	0.534	0.516	0.499	0.482
5	0.593	0.567	0.543	0.519	0.497	0.476	0.456	0.437	0.419	0.402
6	0.535	0.507	0.480	0.456	0.432	0.410	0.390	0.370	0.352	0.335
7	0.482	0.452	0.425	0.400	0.376	0.354	0.333	0.314	0.296	0.279
8	0.434	0.404	0.376	0.351	0.327	0.305	0.285	0.266	0.249	0.233
9	0.391	0.361	0.333	0.308	0.284	0.263	0.243	0.225	0.209	0.194
10	0.352	0.322	0.295	0.270	0.247	0.227	0.208	0.191	0.176	0.162
11	0.317	0.287	0.261	0.237	0.215	0.195	0.178	0.162	0.148	0.135
12	0.286	0.257	0.231	0.208	0.187	0.168	0.152	0.137	0.124	0.112
13	0.258	0.229	0.204	0.182	0.163	0.145	0.130	0.116	0.104	0.093
14	0.232	0.205	0.181	0.160	0.141	0.125	0.111	0.099	0.088	0.078
15	0.209	0.183	0.160	0.140	0.123	0.108	0.095	0.084	0.079	0.065
16	0.188	0.163	0.141	0.123	0.107	0.093	0.081	0.071	0.062	0.054
17	0.170	0.146	0.125	0.108	0.093	0.080	0.069	0.060	0.052	0.045
18	0.153	0.130	0.111	0.095	0.081	0.069	0.059	0.051	0.044	0.038
19	0.138	0.116	0.098	0.083	0.070	0.060	0.051	0.043	0.037	0.031
20	0.124	0.104	0.087	0.073	0.061	0.051	0.043	0.037	0.031	0.026