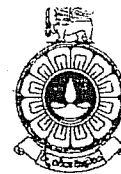


THE OPEN UNIVERSITY OF SRI LANKA
COMMONWEALTH EXECUTIVE MASTER OF BUSINESS/ PUBLIC
ADMINISTRATION
FINAL EXAMINATION
MCP 1609 – ACCOUNTING AND FINANCE
DURATION - 03 HOURS



Date: 09. 12. 2017

Time : 9.30am -12.30pm

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

“Business concerns need finance to meet their requirements in the economic world. Any kind of business activity depends on the finance, therefore finance is considered as lifeblood of business organizations”.

(i) Explain the term “Finance”. (02 Marks)

(ii) State four (04) major financial decisions and explain them briefly. (08 Marks)

(iii) “The goal of management of finance is to maximize shareholders’ wealth”. Briefly explain this statement. (05 Marks)

(iv) “There is an inseparable relationship between finance and other business functions of an organization”. Discuss. (05 Marks)

(Total: 20 Marks)

Question No. 02

(i) Explain importance of measuring financial performance of a business organization.

(04 Marks)

(ii) Home Electrical PLC. carries out its principal activities under two departments – Trading and Service. The Trading Department was set up primarily for the trading of household electric and electronic appliances in collaboration with internationally recognized brand names. It is engaged in the sale of Washing Machines, Refrigerators, Water Geysers, Televisions, Air Conditioners and Cookers. Service Department handles the installation, repair, maintenance and after sales services of all electrical and household appliances sold by the Company. The following are the extracts of the Company’s annual report for the year ended 31st March, 2016.

Statement of Financial Position

	31.03.2016	31.03.2015
	(Rs'000)	(Rs'000)
Assets		
Non-Current Assets		
Property, plant and equipment	236,799	237,811
Fixed deposits	20,957	15,657
Total non-current assets	<u>257,756</u>	<u>253,468</u>
Current Assets		
Inventories	289,999	343,554
Trade receivables	738,538	831,582
Cash and cash equivalents	23,025	44,315
Total current assets	<u>1,051,562</u>	<u>1,219,451</u>
Total assets	<u>1,309,318</u>	<u>1,472,919</u>
Equity and Liabilities		
Stated capital	122,850	122,850
Retained earnings	307,533	247,748
Total equity	<u>430,383</u>	<u>370,598</u>
Non-Current Liabilities		
Interest bearing borrowings	496,397	799,242
Retirement benefit obligations	41,613	40,406
Deferred tax liability	1,577	6,804
Total non-current liabilities	<u>539,587</u>	<u>846,452</u>
Current Liabilities		
Trade payables	226,185	181,948
Income tax payable	28,164	24,950
Amounts due to related parties	8,232	5,645
Bank overdrafts	76,767	43,326
Total current liabilities	<u>339,348</u>	<u>255,869</u>
Total equity and liabilities	<u>1,309,318</u>	<u>1,472,919</u>

Statement of Comprehensive Income

	2015/2016	2014/2015
	(Rs'000)	(Rs'000)
Sales	2,546,450	3,785,305
Cost of sales	<u>(2,205,199)</u>	<u>(3,321,110)</u>
Gross profit	341,251	464,195
Other income	46,972	21,981
Distribution cost	(47,518)	(43,784)
Administrative expenses	(205,303)	(143,397)
Finance expenses	(40,053)	(108,271)
Profit before tax	<u>95,349</u>	<u>190,724</u>
Income tax expense	(27,047)	(73,737)
Net Profit for the year	<u>68,303</u>	<u>116,987</u>

Using the financial statements of Home Electrical PLC, you are required to;

- (a) Calculate working capital as at 31st March, 2015 and 31st March, 2016. (04 Marks)
- (b) Discuss the liquidity position of the company using relevant financial ratios by identifying areas of which a special attention of the company's management required. (06 Marks)
- (c) Using relevant financial ratios, analyze and discuss the profitability and the efficiency of assets utilization of the company for the financial year ending 31st March, 2016.

(06 Marks)

(Total: 20 Marks)

Question No. 03

- (i) Describe the term "Contribution". (02 Marks)
- (ii) What is meant by margin of safety? (03 Marks)
- (iii) Discuss the practical importance of Break-Even point. (04 Marks)
- (iv) ABC PLC produces and sells product A at a price of Rs 23/- each. The variable cost per unit is Rs 18/- and fixed administrative and selling costs are Rs 250,000 per month.

You are required to;

- (a) Calculate Break-even sales volume at the Break- Even point in units. (02 Marks)
- (b) Calculate the number of units to be produced and sold in a month to earn an operating profit of Rs 62,500/-. (03 Marks)
- (c) Prepare a Cost Volume Profit (CVP) graph showing the information in above part (a) and (b), and explain the graph. (06 Marks)

(Total: 20 Marks)

Question No. 04

“Financial accounting is a process of identifying, recording and reporting the financial results of transactions of an organization to its various interested parties”.

- (i) Explain the objective of financial statements. (03 Marks)
 - (ii) Discuss the type of information presented in each component of financial statements. (05 Marks)
 - (iii) Explain the meaning of business transactions and discuss with examples how they are reflected in financial statements. (08 Marks)
 - (iv) Explain the role of financial accounting in the decision making of a business enterprise. (04 Marks)
- (Total: 20 Marks)**

Question No. 05

“Capital investment decisions represents the most important decisions that an organization makes, since they commit a substantial proportion of firm’s resources to actions that are unlike to be reversible.”

- (i) Differentiate real assets from financial assets. Discuss with examples how capital investment decision relates to such assets. (04 Marks)
- (ii) Explain reasons for preferring Net Present Value technique to Accounting Rate of Return in the financial analysis of capital investment proposals. (04 Marks)
- (iii) You are employed as the assistant accountant in your company and you are currently working on an appraisal of a project to purchase new machine. The machine will cost Rs 5,900,000/- and will have a useful life of four years. Estimated cash flows from the project as are given below.

	Year 1	Year 2	Year 3	Year 4
Estimated net cash flow	1,700,000	2,500,000	2,600,000	1,100,000

The machine will not have any residual value at the end of its useful life. The company uses a cost of capital of 10% to appraise all projects of this type.

- (a) Calculate Payback period, Accounting Rate of Return and Net Present Value of the proposal to purchase machine. (06 Marks)
 - (b) Discuss how the calculations in part (a) above should be used in the financial analysis of the proposal to purchase machine. (06 Marks)
- (Total: 20 Marks)**

Copyrights Reserved