

THE OPEN UNIVERSITY OF SRI LANKA
 Department of Civil Engineering
 Construction Management Programme - Level 7
 Post Graduate Diploma / Stand Alone Courses
 CEM7103/CEP 2103/CEE7103 -FINANCIAL MANAGEMENT AND TAXATION



FINAL EXAMINATION - 2006
 Time Allowed: Three (03) Hours

Date: 10-03-2007 (Saturday) Time: 0930 - 1230 hrs.

Answer Four (04) questions with at least One (01) question from section B.

SECTION A - FINANCIAL MANAGEMENT

Q1.

(a) Explain the 'Objectives of Accountancy'.

(Marks 05)

(b) Briefly explain the different books used in 'book keeping'.

(Marks 05)

(c) What is the purpose of 'Bank Reconciliation Account'?

(Marks 05)

(d) Explain the purposes served by 'Ratio Analysis'.

(Marks 05)

(e) Distinguish between horizontal and vertical analysis of financial statements.

(Marks 05)

Q2.

(a) Explain the purpose of 'Profit and Loss' account. Identify the items appearing on each side of this account.

(Marks 05)

(b) Distinguish between Trial Balance and Balance Sheet.

(Marks 05)

(c) Write short descriptive notes on

(i) Working Capital

(ii) Funds Statement

(Marks 10)

(d) Explain the basic procedure for 'cost control'.

(Marks 05)

Q3.

EMP plc is a retail organization, with the following trial balance at 31 October 2006:

	DR	CR
	£ million	£ million
Ordinary shares of 50p each		200
Share premium account		16
General reserves		14
Profit and loss account balance at 1 November 2005		62
Plant and machinery - cost	250	
- depreciation at 1 November 2005		56
Office equipment - cost	90	
- depreciation at 1 November 2005		30
Stocks at 1 November 1999	62	
Debtors and creditors	84	80
Provision for doubtful debts at 1 November 2005		08
Bank balance	08	
Purchases and sales	230	376
Returns inwards and outwards	16	12
Administrative expenses		
Wages and salaries	28	
Directors fees	10	
Telephone costs	12	
Rent, rates and insurance	08	
Heat and light	16	
Printing and stationery	12	
Distribution expenses	24	
Interim dividend paid	04	
	<u>854</u>	<u>854</u>

The following additional information at 31 October 2006 is available:

- i) Closing stocks of goods for resale £ 106 million
- ii) Distribution expenses include £ 1 million carriage inwards and £3 million carriage outwards.
- iii) Prepayments:

	£ million
- telephone rental	1
- rates and insurance	2
- iv) Accruals:

	£ million
- wages and salaries	3
- telephone call charges	4
- Directors' fees	2
- Auditor's fees	1

- v) The figure in the trial balance for the bank balance is the balance appearing in the cash book 'prior to conducting the bank reconciliation. On receipt of the bank statement, it is discovered that:
- unpresented cheques amount to £3 million;
 - bank charges and interest not recorded in the cash book amount to £2 million;
 - a cheque for £ 1 million from a customer has been dishonoured and not recorded in the ledgers.
- vi) Bad debts to be written off amount to £ 5 million (including the dishonoured cheque referred to in note (v) above), and the provision for doubtful debts is to be amended to 2.5% of debtors.
- vii) Depreciation on fixed assets is to be provided as follows:
- plant and machinery 10% on cost
 - office equipment 33 1/3% on the reducing balance.
- viii) Provision of £2 million is to be made for corporation tax.
- ix) A final dividend of 1.5p per share is to be proposed.
- x) £20 million is to be transferred to general reserves.

(a) Prepare the trading and profit and loss account for the year ended 31 October 2006, showing clearly the appropriation of profit for the year.

(Marks 12)

(b) Prepare a balance sheet at 31 October 2006.

(Marks 08)

(c) State the formulae for and calculate the following ratios:

- Acid test or quick ratio;
- Rate of stock turnover

(Marks 05)

Q4.

(a) Any firm engaged in manufacturing products can face different types of costs as long as it is engaged in business. Identify these generic types of costs and explain the nature of these costs. Illustrate your answer using costs related to a ready mixed concrete plant.

(Marks 05)

(b) Explain following two concepts highlighting their importance for a manufacturing organisation.

- (i) Marginal costing
- (ii) Breakeven analysis

(Marks 05)

- (c) ABC is a firm engaged in production of high quality clay bricks using state of the art machinery. The cost information for manufacturer one unit of brick is as follows;

	Rupees
Direct materials	2.00
Direct labour	1.00
Variable overhead	0.50
Variable selling expenses	0.10
Total fixed overhead	388,800

Each brick sells for Rs.9.00. Current monthly production and sales volumes are 75,000 units.

- (i) Compute contribution margin and breakeven point (in both units and sales) for ABC.
- (ii) What is ABC's operating leverage?. If sales increase by 20%, by how much will before tax income increase?
- (iii) If ABC wants to earn 43,200 of before tax profits, how many units will have to be sold?
- (iv) If ABC wants to earn Rs. 40,500 after taxes and is subject to a 25% tax rate, how many units will have to be sold?
- (v) If ABC's fixed costs increase by Rs. 7,560, how many units would need to be sold to break even?
- (vi) ABC can sell an additional 6,000 bricks monthly for Rs. 8.50 to an outstation project since he is willing to bear the transport cost. Variable costs will increase by Rs. 0.30 for transport expenses, and fixed costs will increase by Rs. 25,000 because of the purchase of the new machine. These additional sales will not affect the existing sales this year or in the future. Should ABC sell the additional units?

(Marks 15)

SECTION B - TAXATION

Q5.

Describe the rules applicable to determine the residence of a person for the purposes of income tax.

(Marks 25)

Q6.

Explain the steps available to an individual who is dissatisfied with an assessment issued to him by an assessor with regard to income tax.

(Marks 25)