



**CEM7103 - Financial Management and Taxation in the Construction Industry**

034

FINAL EXAMINATION - 2007

Time Allowed : Three Hours

Date: 2008 - 04 - 25 (Friday)

Time: 0930 - 1230 hrs

Answer four (04) questions with at least one (01) question from section B.

**Section A: Financial Management**

Q1.

- Explain a typical accounting control system emphasizing on the use of different kind of accounts in a business.
- Explain the purpose of preparing a Trial Balance. Also explain the classes of errors that are not revealed by a Trial Balance.
- Explain the importance of working capital management.
- Write a short descriptive note on 'cash book'.
- Explain the purposes served by a Balance sheet.

(Marks 25)

Q2..

- Explain the purpose of 'Accounting'.
- Explain the purpose of preparing a Bank reconciliation statement.
- "Ratio analysis benefits a firm". Explain this statement.
- Describe what is understood by capital gearing.
- Describe the purposes of a system of costing.

(Marks 25)

Q3.

The following Trial balances have been extracted from the books of Nuwan plc, as at 31<sup>st</sup> March 2007.

	Dr	Cr
	Rs.	Rs.
Sales		690,390
Purchases	411,750	
Carriage	25,720	
Drawings	39,000	
Rent, rates and insurance	33,110	
Printing and stationary	15,005	
Advertising	6,650	
Salaries and wages	132,100	
Bad debts	4,385	
Provision for doubtful debts		650
Debtors	60,600	
Creditors		32,355
Cash in hand	885	
Cash at bank	5,010	
Stock as at 1 <sup>st</sup> April 2006	59,635	
Equipment - cost	290,000	
Equipment - depreciation		95,000
Capital		265,455
	<u>1,083,850</u>	<u>1,083,850</u>



The following additional information as at 31<sup>st</sup> March 2007 is available:

- i.) Rent is accrued by Rs.1, 050.
  - ii.) Rates have been prepaid by Rs.4, 400.
  - iii.) Rs.11, 055 of carriage represent carriage inwards on purchases.
  - iv.) Equipment is to be depreciated at 15% p.a. using the straight-line method.
  - v.) The provision for bad and doubtful debts is to be increased by Rs.200.
  - vi.) Stock at the close of business has been valued at Rs.67, 755.
- a.) Prepare the Trading and Profit and Loss Account for the year ended 31<sup>st</sup> March 2007. (Marks 12)
  - b.) Prepare the Balance Sheet as at 31<sup>st</sup> March 2007. (Marks 08)
  - c.) Calculate the following ratios stating the formulae used:
    - Acid test or quick ratio;
    - Rate of stock turnover(Marks 05)

**Q4.**

A. Explain following two concepts highlighting their importance for a business organization.

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

(Marks 05)

B.

A recent market survey conducted by a heavy machinery-hiring firm has revealed that there is substantial market potential for hiring of tippers. A firm is keen to invest on a fleet of tippers to take advantage of the situation. Prior to the investment it likes to evaluate the economic feasibility of the project. The cost breakdown prepared by its costing engineer is as given below;

Diesel oils and greases	Rs. 10 per km
Tires and repairs	Rs. 9 per km
Wages	Rs. 7 per km
Depreciation	Rs. 450,000 per year
Insurance	Rs. 150,000 per year

- a.) The firm has decided to rent a tipper for Rs. 50 per kilometer. How many kilometers does each tipper have to run before 'break-even'? (Marks 08)
- b.) If the firm invests Rs. 3,500,000 on a tipper how many kilometers does each tipper have to run at Rs.50 per kilometer in order to earn 10% return on investment? (Marks 06)
- c.) The engineer estimates that on average demand for a tipper would increase to 35,000 km next year. Assuming other conditions remain the same what rate should he recommend for the firm to quote next year?
  - i) To break even
  - ii) To earn 10% return on investment(Marks 06)

## **Section B: Taxation**

**Q5.**

Explain the following terms;

- a.) Resident Individuals & Non Resident Individuals.
- b.) Resident Companies & Non Resident Companies.
- c.) Year of Assessment & Income Tax Return.
- d.) Tax Holidays & Tax Relief.
- e.) Value Added Tax & Exempted Supplies.

(Marks 25)

**Q6**

- a.) On what grounds an Assessment is issued by the Assessor.
- b.) How to make a valid appeal against the Assessment.
- c.) How to recover the Default Taxes by the Department.

(Marks 25)

