

0050

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



FINAL EXAMINATION - 2009  
 Time Allowed: Three (03) Hours

Date: 06-03- 2010 (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 purpose of a typical accounting control system while emphasizing on the use of different kind of accounts in a business.

(Marks 05)

(b) Explain the objectives of preparing a Trial Balance. List the classes of errors that are not revealed in a Trial Balance.

(Marks 05)

(c) Explain the importance of working capital management.

(Marks 05)

(d) Differentiate between 'cash flow statements' and 'fund flow statements'.

(Marks 05)

(e) Explain the purposes served by a Balance sheet.

(Marks 05)

**Q2.**

(a) Accounting information is vital to various parties related to a business. Discuss.

(Marks 06)

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

(Marks 06)

(c) Describe the significance of Sources and Application of Funds Statement to stakeholders of a Construction Company.

(Marks 07)

(d) Explain the main purposes served by a Journal.

(Marks 06)

Q3.

The Trial Balance of ANB plc, as at 31<sup>st</sup> December 2009 is shown below:

Trial Balance as at 31 December 2009		
Item	Dr (\$)	Cr (\$)
Sales	-	6000
Purchases	4000	-
Insurance	650	-
Lighting & heating	450	-
General expenses	120	-
Machinery	2100	-
Debtors	890	-
Creditors	-	980
Bank	1970	-
Discounts allowed	130	-
Discounts received	-	110
Cash in hand	80	-
Drawings	700	-
Capital	-	3000
Loan	-	1000
Total	11090	11090

- Stock in trade as at 31 December 2009 has been valued at \$300
- a) Prepare the Trading and Profit and Loss account for the year ended 31<sup>st</sup> December 2009 using the above information. (Marks 12)
  - b) Prepare the Balance Sheet as at 31<sup>st</sup> December 2009. (Marks 08)
  - c) Calculate the following ratios stating the formulae used:
    - Quick ratio
    - Current ratio
 (Marks 05)

Q4.

(a) Explain the objectives of a costing system.

(Marks 05)

(b) Distinguish between the concepts of cost control and cost reduction.

(Marks 05)

(c)

A recent market survey conducted by a heavy machinery-hiring firm revealed that there exists a sound market potential for hiring of tippers. The firm is keen to invest on a fleet of tippers to take advantage of the situation. Prior to the investment, the firm wants to evaluate the economic feasibility of the project. Its costing engineer has estimated the breakdown of costs of running a tipper, which is given below;

Diesel oils and greases	Rs. 8 per km
Tyres and repairs	Rs. 6 per km
Wages	Rs. 8 per km
Depreciation	Rs. 500,000 per year
Insurance	Rs. 50,000 per year

(a) The firm has decided to rent a tipper at Rs. 44 per kilometre. How many kilometres does each tipper have to run before 'break even'?

(Marks 06)

(b) If the firm invests Rs. 2,200,000 on a tipper how many kilometres does each tipper have to run at Rs.44 per kilometre in order to earn 10% 'return on investment'?

(Marks 04)

(c) The engineer estimates that on average, the next year demand for a tipper would be 15,000 km. On the assumption that conditions remain the same, what is the rate that he should recommend for the firm to quote next year?

- i) to break even
- ii) to earn 10% return on investment

(Marks 05)

**SECTION B - TAXATION**

Q5.

- (a) Explain the requirements for a valid appeal against an assessment of income tax. (Marks 05)
- (b) Describe the grounds on which additional assessments are issued to tax payers. (Marks 05)
- (c) Explain the procedure adopted to recover the income taxes in default. (Marks 05)
- (d) Explain the quarterly payment of income tax. (Marks 05)
- (e) Explain the payment procedure of VAT Input taxes and VAT Output taxes. (Marks 05)

Q6.

- (a) Explain how it is determined whether a person is 'resident' or 'non-resident' for the purpose of payment of taxes. Compare how 'resident' and 'non-resident' people are taxed in a given year of assessment. (Marks 07)
- (b) Write a short descriptive note on partnership taxes. (Marks 06)
- (c) Explain the important aspects of payment of company taxes. (Marks 06)
- (d) Explain the circumstances of refunding of taxes. (Marks 06)