

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



**FINAL EXAMINATION - 2011/2012**

Time Allowed: Three (03) Hours

Date: 26-02- 2012 (Tuesday)

Time: 0930 - 1230 hrs.

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

**SECTION A - FINANCIAL MANAGEMENT**

**Q1**

(a) List the debit and credit entries for the following transactions:

- (i) Bought a machine on credit from A, cost \$8,000.
- (ii) Bought goods on credit from B, cost \$500.
- (iii) Sold goods on credit to C, value \$1,200.
- (iv) Paid D (a payable) \$300.
- (v) Collected \$180 from E, a receivable.
- (vi) Paid wages, \$4,000.
- (vii) Received rent bill of \$700 from landlord G.
- (viii) Paid rent of \$700 to landlord G.
- (ix) Paid insurance premium, \$90.

(Marks 6)

(b) You are given summarized results of an electrical engineering business, as follows.

**Profit & Loss Statement**

	Year Ended	
	31.12.2007	31.12.2006
Turnover	60,000	50,000
Cost of sales	<u>42,000</u>	<u>34,000</u>
Gross profit	18,000	16,000
Operating expenses	<u>15,500</u>	<u>13,000</u>
	2500	3,000
Interest payable	<u>2,200</u>	<u>1,300</u>
Profit before taxation	300	1,700
Taxation	<u>350</u>	<u>600</u>
(Loss) profit after taxation	<u>(-50)</u>	<u>1,100</u>
Dividends paid	<u>600</u>	<u>600</u>

**Balance Sheet**

	31.12.2007	31.12.2006
<i>Non-current assets</i>		
Intangible	850	-
Tangible	<u>12,000</u>	<u>11,000</u>
	12850	11,000
<i>Current assets</i>		
Inventories	14,000	13,000
Receivables	16,000	15,000
Bank and cash	500	500
	<u>43,350</u>	<u>39,500</u>
<i>Capital and reserves</i>		
Share capital	1,300	1,300
Share premium	3,300	3,300
Revaluation reserve	2,000	2,000
Retained earnings	<u>6,750</u>	<u>7,400</u>
	13,350	14,000
Current liabilities	24,000	20,000
Non-current liabilities	6,000	5,500
	<u>43,350</u>	<u>39,500</u>

Determine the following ratios, for both years, clearly showing the figures used in the calculations:

- (i) Current ratio
- (ii) Quick assets ratio
- (iii) Inventory turnover in days
- (iv) Receivables turnover in days
- (v) Payables turnover in days
- (vi) Gross profit %

(Marks 9)

- (c) Peter decides to open a bookshop called AX, which he does by investing Rs 5,000 on 1 January 2007. During the first month of AX's existence, the following transactions occur:

- (i) Bookshelves are purchased for Rs 1,800.
- (ii) Books are purchased for Rs 2,000.
- (iii) Half of the books are sold for Rs 1,500 cash.
- (iv) Peter draws Rs 200 out of the business for himself.
- (v) Peter's brother John loans Rs 500 to the business.
- (vi) Carpets are purchased for Rs 1,000 on credit (to be paid in two months time).

Write down the accounting equation, after all of these transactions have taken place

Assets + expenses = Capital + Liabilities + Income

(Marks 6)

- (d) List the classes of errors that are not revealed in a Trial Balance.

(Marks 4)

Q2

- (a) Given opening inventory Rs 58,000, closing inventory Rs 62,000, opening payables Rs 15,000, closing payables Rs 25,000, payments to payables Rs 160,000, calculate the rate of inventory turnover. (Marks 5)
- (b) The following trial balance was extracted from the ledger of Bret, a sole trader, as at 31 May 2001 at the end of his financial year.

Bret- Trial Balance As at 31 May 2001

	Dr \$	Cr \$
Property, at cost	120,000	
Equipment, at cost	80,000	
Provisions for depreciation (as at 1 June 2000)		
- on property		20,000
- on equipment		38,000
Purchases	250,000	
Sales		402,200
Stock, as at 1 June 2000	50,000	
Discounts allowed	18,000	
Discounts received		4,800
Returns out		15,000
Wages and salaries	58,800	
Bad debts	4,600	
Loan interest	5,100	
Other operating expenses	17,700	
Trade payables		36,000
Trade receivables	38,000	
Cash in hand	300	
Bank	1,300	
Drawings	24,000	
Allowance for receivables		500
17% long term loan		30,000
Capital, as at 1 June 2000		121,300
	<u>667,800</u>	<u>667,800</u>

The following additional information as at 31 May 2001 is available:

Inventory as at the close of business has been valued at cost at \$42,000.

Wages and salaries need to be accrued by \$800.

Other operating expenses are prepaid by \$300.

The allowance for receivables is to be adjusted so that it is 2% of trade receivables.

Depreciation for the year ended 31 May 2001 has still to be provided for as follows.

Property: 1.5% per annum using the straight line method; and

Equipment: 25% per annum using the reducing balance method.

- (i) Prepare the Trading and Profit and Loss account using the above information.

(Marks 12)

- (ii) Prepare the Balance Sheet as at 31<sup>st</sup> May 2001.

(Marks 08)

Q3.

(a) Write short descriptive notes on the following:

Ordinary shares

Shareholders

Dividends payable to ordinary share holders

(Marks 09)

(b) Explain different 'elements of costs' illustrating with examples.

(Marks 09)

(c) Differentiate between cash flow statement and fund flow statement.

(Marks 07)

Q4.

(a) Explain the objectives of a costing system.

(Marks 05)

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

(Marks 06)

(c)

The following projections were made for the Wood Craft Company for 2012. Currently, the Company is only producing low cost pantry cupboards:

Wood Craft Company			
Financial Projection for Production of Pantry Cupboards for the Year Ending 2012 (All figures in SLR)			
Sales revenues (100 units at 100,000 a unit)			10,000,000
Manufacturing cost of goods sold			
Direct labour	1,500,000		
Direct materials used	1,400,000		
Variable manufacturing overhead	1,000,000		
Fixed manufacturing overhead	500,000		
Total			4,400,000
Gross margin			5,600,000
Selling expenses			
Variable	600,000		
Fixed	1,000,000		
Administrative expenses		1,600,000	
Variable	500,000		
Fixed	1,000,000		
		1,500,000	
Total selling and administrative expenses			3,100,000
Operating income			2,500,000

- (i) Draw the cost-volume-profit graph for the above pantry cupboard production and find the number of units of pantry cupboards that must be sold to break even.
- (ii) Determine the contribution margin per unit and margin of safety.
- (iii) What would be the operating income if projected sales units increased by 25 percent?
- (iv) What would sales volume be at the breakeven point if fixed overhead increased by Rs. 1,700,000.

(Marks 14)

**SECTION B - TAXATION****Q5.**

- (a) Explain separately how resident persons and non resident persons are taxed for their profits and income.  
(Marks 12)
- (b) Explain the circumstances which empower an assessor to make an assessment.  
(Marks 08)
- (c) Explain the methods of recovery of tax when tax is not paid under an assessment.  
(Marks 05)

**Q6.**

- (a) Section 23 of the Inland Revenue Act sets out certain deductions which are allowable in arriving at a person's profit for tax purposes. List the expenses specifically mentioned in the Inland Revenue Act.  
(Marks 10)
- (b) Explain how an allowance for tax depreciation for plant, machinery and fixtures is granted.  
(Marks 08)
- (c) Explain how an allowance for tax depreciation for buildings is granted.

(Marks 07)