

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 - 2012/2013
 Time Allowed: Three (03) Hours



Date: 28-07- 2013 (Sunday)

Time: 0930 - 1230 hrs.

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

SECTION A - FINANCIAL MANAGEMENT

Q1.

- (a) Asia Wind (Pvt) Ltd was formed for the purpose of setting up a 5 MW Wind power plant. The project cost is given below;

Item	Rs Mn
Land	150
Wind Turbine Generator	549
Tower	240
Electrical System	173
Civil Work	200
Total Project Cost	1,312

The company expects the Electrical System to depreciate by 15% per annum & the remaining depreciable assets will have an average life of 20 years. Calculate the annual depreciation charge (assuming straight line depreciation) of Asia Wind (Pvt) Ltd.

(10 marks)

- (b) Rearrange the order of the following book keeping methodologies according to the financial accounting hierarchy.

- Trial Balance
- Double Entry Accounting
- Ledger
- Profit & Loss Account & Balance Sheet
- Journal

Also explain the key distinction between the Profit & Loss account & Balance sheet.

(5 marks)

- (c) Prepare the Trial Balance for the following transactions.

- 1) Transaction 1: \$280 is received for goods sold.
- 2) Transaction 2: A \$65 utility bill is paid.
- 3) Transaction 3: A truck costing \$10,000 is purchased on credit.
- 4) Transaction 4: The owner puts \$1,000 into the business.
- 5) Transaction 5: A \$500 payroll tax liability is paid.
- 6) Transaction 6: The owner buys \$35 in groceries with a business check.

(10 marks)

- Q2.** The following trial balance was extracted from the ledger of Colombo Textiles, as at 31st March 2013 at the end of the financial year.

Trial Balance of Colombo Textiles as at 31 st March 2013		
Particulars	Debit Amount (in Rs)	Credit Amount (in Rs)
Opening Stock	86,000	
Purchases	1,136,000	
Salaries	153,000	
Wages	18,000	
Carriage Inwards	26,900	
Trading Charges	64,000	
Carriage Outwards	52,500	
Rent received		178,300
Cash	62,500	
Capital		344,700
Bank (Overdraft)		37,980
Commission (Indirect expenses)	42,780	
Creditors		268,000
Sales		1,548,700
Debtors	256,000	
Machinery	480,000	
Total	2,377,680	2,377,680

The following additional information is available:

1. A Machine purchased on credit from Ramsay Machine Tools for Rs. 200,000/- is not yet recorded in the books.
2. Wages to the extent of Rs. 43,000 are incorrectly recorded as Salaries.

- (a) Prepare the Trading and Profit & Loss account for the year ending 31st March 2013. (15 marks)
- (b) Prepare the Balance sheet as at 31st March 2013. (10 marks)

Q3.

- (a) Explain the effect of inflation on accounting in general and indicate how historic depreciation may be adjusted to account for inflation.

(Marks 08)

- (b) Describe the importance of Working Capital management.

(Marks 06)

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

(Marks 05)

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

(Marks 06)

Q4.

(a)

Explain the following two concepts highlighting their importance for a business organisation.

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

(Marks 05)

(b)

ABC Company manufactures and sells a telephone answering machine. The company's income statement for the most recent year is given below:

	Total (Rupees)	Per unit
Sales (20,000 units)	120,000,000	6,000
Less Variable expenses	90,000,000	4,500
Contribution margin	30,000,000	1,500
Less fixed expenses	24,000,000	
Net income	6,000,000	

Management is anxious to improve the company's profit performance and has asked for several items of information.

(i). Compute the company's (Contribution Margin) CM ratio.

(Marks 02)

(ii). Compute the company's break-even point in both units and sales rupees.

(Marks 03)

(iii). Assume that sales increase by rupees 40,000,000 next year. If cost behaviour patterns remain unchanged, by how much will the company's net income increase? Use the CM ratio to determine your answer.

(Marks 04)

(iv). Refer to the original data. Assume that next year management wants the company to earn a minimum profit of rupees 9,000,000. How many units will have to be sold to meet this target profit figure?

(Marks 03)

- (v). Refer to the original data. Compute the company's margin of safety in both rupees and percentage form.

(Marks 03)

- (vi) In an effort to increase sales and profits, management is considering the use of a higher-quality speaker in the answering machine. The higher-quality speaker would increase variable costs by rupees 300 per unit, but management could eliminate one quality inspector who is paid a salary of 3,000,000 rupees per year. The sales manager estimates that the higher-quality speaker would increase annual sales by at least 20%.

- a. Assuming that changes are made as described above, prepare a projected income statement for next year. Show data on a total, per unit, and percentage basis.
- b. Compute the company's new break-even point in both units and rupees sales. Use the contribution margin method
- c. Would you recommend that the changes be made?

(Marks 05)

SECTION B - TAXATION

Q5.

- (a) Describe the rules applicable to determine the residence of (i) a person (ii) a company or a body of persons for the purposes of income tax.

(Marks 15)

- (b) Distinguish between how resident persons and non resident persons are taxed for their profits and income.

(Marks 10)

Q6.

- (a) 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 15)

- (b) Provide a short descriptive note on 'tax liability of construction contracts'

(Marks 10)