

THE OPEN UNIVERSITY OF SRI LANKA  
 Department of Civil Engineering  
 Construction Management Programme - Level 7  
**CEM7103 - FINANCIAL MANAGEMENT AND TAXATION**  
**FINAL EXAMINATION - 2013/2014**  
 Time Allowed: Three (03) Hours



Date: 11-08- 2014 (Monday)

Time: 0930 - 1230 hrs.

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

**SECTION A - FINANCIAL MANAGEMENT**

Q1 The Profit & Loss Account & Balance Sheet of JCB Construct Pvt Ltd are given below;

JCB Construct Pvt Ltd				
<b>Profit/ Loss Account</b>				
<b>For the year ending 31.12 (all values in Rs Mn)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>Aud</b>	<b>Aud</b>	<b>Aud</b>	<b>7 Months</b>
Revenue	356	481	538	349
Cost of sales	276	369	406	262
<b>Gross profit</b>	<b>80</b>	<b>112</b>	<b>132</b>	<b>86</b>
<u>Overheads</u>				
Distribution	2	4	13	9
Administration	25	26	33	13
Total overheads	27	30	46	22
<b>PBID</b>	<b>53</b>	<b>82</b>	<b>87</b>	<b>64</b>
Interest	27	15	25	13
Depreciation	55	38	36	-
<b>Operating profit</b>	<b>(29)</b>	<b>29</b>	<b>26</b>	<b>51</b>
Other Income	6	11	3	1
<b>PBT</b>	<b>(23)</b>	<b>40</b>	<b>30</b>	<b>52</b>
Taxation	0	3	2	0
<b>PAT</b>	<b>(23)</b>	<b>37</b>	<b>28</b>	<b>52</b>

JCB Construct Pvt Ltd			
<b>Balance Sheet</b>			
<b>As at 31.12 (all values in Rs Mn)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<b>Aud</b>	<b>Aud</b>	<b>Aud</b>
<u>Fixed Assets</u>			
Plant & Equipment	220	255	229
Long Term Investments	38	92	90
<b>Net Fixed assets</b>	<b>258</b>	<b>347</b>	<b>319</b>
<u>Current assets</u>			
Inventories	32	52	61
Trade Debtors	30	58	1
Other Debtors	9	7	3
Other	1	1	1
Related party receivables	57	52	34
Cash in Hand	2	10	17
<b>Total current assets</b>	<b>132</b>	<b>178</b>	<b>117</b>
<u>Current Liabilities</u>			
Short Term Loans	33	154	50
Trade creditors	25	8	11

Other creditors	12	12	20
Amounts due to related parties	13	13	13
Bank Overdraft	17	22	39
<b>Total current liabilities</b>	<b>99</b>	<b>210</b>	<b>133</b>
<b>Net Current Assets</b>	<b>32</b>	<b>(32)</b>	<b>(15)</b>
<b>Net Assets</b>	<b>290</b>	<b>315</b>	<b>304</b>
<u>Financed by:</u>			
Share capital	20	50	50
Retained Earnings	(23)	52	77
<b>Net worth</b>	<b>(3)</b>	<b>102</b>	<b>127</b>
<u>Long Term Liabilities</u>			
Gratuity	10	11	12
Long Term Loans	171	126	121
Other Liability	112	77	44
<b>Total Long Term Liabilities</b>	<b>293</b>	<b>213</b>	<b>177</b>
<b>Total capital employed</b>	<b>290</b>	<b>315</b>	<b>304</b>

- (a) Compute the following Profitability Ratios.
- Gross Profit to Turnover Ratio for Financial Year 2013 (2.5 marks)
  - Net Profit to Turnover Ratio for Financial Year 2013 (2.5 marks)
  - Percentage of Tax paid during Financial Year 2013 (2.5 marks)
  - Assuming Fixed Assets are depreciated on a Reducing Balance Basis & fixed capital expenditure to be Rs 70 Mn each year, compute depreciation for Financial Year 2012 & 2013 (5 marks)
- (b) Compute the following Balance Sheet Ratios
- Current Ratio for Financial Year 2013 (2.5 marks)
  - Quick Asset Ratio for Financial Year 2013 (2.5 marks)
  - Acid Test Ratio for Financial Year 2013 (2.5 marks)
- (c) Compute the following Mixed Ratios
- Stock Turnover Ratio for Financial Year 2013 (2.5 marks)
  - Debtors Turnover Ratio for Financial Year 2013 (2.5 marks)

Q2 The following trial balance was extracted from the ledger of GIGA Construction, as at 31<sup>st</sup> March 2014 at the end of the financial year.

Trial Balance of GIGA Construction as on 31 <sup>st</sup> March 2014		
Particulars	Debit Amount (Rs Mn)	Credit Amount (Rs Mn)
Machinery	520,000	
Purchases	1,150,000	
Salaries	200,000	
Administrative	20,000	
Cash	168,320	
Transport Expenses	64,000	
Opening Stock	56,000	
Carriage Outwards	52,500	
Rent received		178,300

Capital		1,250,000
Bank (Overdraft)		32,500
Commission (Indirect expenses)	62,780	
Creditors		162,000
Sales		1,150,000
Debtors	463,000	
Carriage Inwards	16,200	
<b>Total</b>	<b>2,772,800</b>	<b>2,772,800</b>

The following additional information is also available:

1. A Cement Mixture purchased on credit from Caterpillar Tools for Rs. 450,000/- is not yet recorded in the books.
  2. Administrative Expenses to the extent of Rs. 50,000 are incorrectly recorded as Salaries.
- a) Prepare the Trading and Profit & Loss account for the year ending 31<sup>st</sup> March 2014. (15 marks)
- b) Prepare the balance sheet as at 31<sup>st</sup> March 2014. (10 marks)

**Q3.**

- (a) Explain different 'elements of costs' illustrating with examples. (07 marks)
- (b) Differentiate between cash flow statement and fund flow statement. (07 marks)
- (c) Explain the basic procedure for 'cost control'. (05 marks)
- (d) Explain the following two concepts separately, highlighting their importance for a business organisation; Marginal costing and Breakeven analysis (06 marks)

**Q4.**

- (a) Makeblock Limited produces three types of cement blocks: Hollow, Thick and Slim. As the company practises Just-in-Time (JIT) production and purchasing system, its stocks are negligible. The following financial information is given with regard to the three products mentioned above. All values are in Rupees.

Product	Hollow	Thick	Slim
Sales revenue	1,500,000	2,300,000	650,000
Raw materials costs	650,000	1,100,000	350,000
Block makers' wages	300,000	450,000	190,000
Variable costs	200,000	320,000	250,000

You are given the following fixed costs which are common to all products:

Production overheads	800,000
Selling and distribution overheads	620,000
Administration overheads allocated	330,000

Determine the total contribution and thereby the profit for the period.

(10 marks)

- (b) The following cost information is available from AMC Limited's costing department.

Selling price	Rs.400 per unit
Variable costs calculated per unit are as follows.	
Direct material	Rs.150 per unit
Direct labour	Rs.100 per unit
Selling overheads	10% of sales value
General administration cost	15% of sales value

Budgeted fixed production cost	Rs. 300,000
Budgeted fixed selling and distribution cost	Rs. 180,000
Budgeted units	15,000
Actual fixed production cost	Rs. 320,000
Actual production (units)	12,000
Actual sales (units)	10,000
Actual fixed selling and distribution expenses	Rs. 160,000
Opening stock (units)	1,000

Determine the following:

- (i) Variable cost of sales per unit
- (ii) Contribution per unit
- (iii) Total contribution
- (iv) Profit for the period
- (v) Profit and Loss account under marginal costing system

(15 marks)

#### SECTION B - TAXATION

Q5.

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

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. (10 marks)
- (b) Explain how an allowance for tax depreciation for plant, machinery and fixtures is granted. (08 marks)
- (c) Explain how an allowance for tax depreciation for buildings is granted. (07 marks)