

040

THE OPEN UNIVERSITY OF SRI LANKA
 Department of Civil Engineering
 Construction Management Programme - Level 7
CEM7103 - FINANCIAL MANAGEMENT AND TAXATION
FINAL EXAMINATION - 2014/2015
 Time Allowed: Three (03) Hours



Date: 09-08- 2015 (Sunday) Time: 0930 - 1230 hrs.

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

SECTION A - FINANCIAL MANAGEMENT

Q1.

The following trial balances has been extracted from the books of Green Power Construction PLC, as at 31st March 2015.

	Dr	Cr
	Rs.	Rs.
Capital		265,455
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	X	X
Cash in hand	885	
Cash at bank	5,010	
Stock as at 1 st April 2006	59,635	
Equipment - cost	290,000	
Equipment - depreciation		95,000

The following additional information as at 31st March 2015 is available:

- i) Rent is accrued by Rs.1,050/-.
- ii) Rates have been prepaid by Rs.4,400/-.
- iii) Stock at the close of business has been valued at Rs.67,755/-.

(a) Find the value of Creditors as at 31st March 2015.

(Marks 03)

(b) Prepare the trading and profit and loss account for the year ended 31st March 2015.

(Marks 10)

(c) Prepare a balance sheet as at 31st March 2015.

(Marks 08)

(d) Calculate the following ratios stating the formulae used:

- Quick Asset ratio;
- Rate of stock turnover

(Marks 04)

Q2.

- (a) Explain briefly the classes of errors that are not shown by a trial balance. (Marks 06)
- (b) Prepare the Trial Balance for the following transactions:
- 1) Transaction 1: Rs 2,000,000/- is received for goods sold.
 - 2) Transaction 2: A Rs 65,000 utility bill is paid.
 - 3) Transaction 3: A truck costing Rs 3,500,000 is purchased on credit.
 - 4) Transaction 4: The owner puts Rs 1,000,000/- into the business.
 - 5) Transaction 5: A Rs 500,000/- salary payroll is paid.
 - 6) Transaction 6: The owner buys Rs 15,000/- in groceries for personal use with a business check.
 - 6) Transaction 7: The owner buys lunch for a customer for Rs 7,000/- in a five star hotel.
- (Marks 14)
- (c) Categorise the following items into Assets & Liabilities;
- i. Account Receivables
 - ii. Term Debt
 - iii. Prepayments
 - iv. Accruals
 - v. Inventory
- (Marks 05)

Q3.

- (a) Explain the purposes served by 'Ratio Analysis'. (Marks 06)
- (b) Briefly outline the significance of a balance sheet to a General Manager of company. (Marks 06)
- (c) Explain the basic procedure for 'cost control'. (Marks 06)
- (d) Differentiate between cash flow statement and fund flow statement. (Marks 07)

Q4.

- (a) Explain the following two concepts highlighting their importance for an organisation producing prefabricated units;
- (i) Breakeven analysis
 - (ii) Margin of safety
 - (iii) Marginal costing

(10 marks)

6)

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(b) ABC Ltd. has plans to be the exclusive distributor of a new brand of cement sand block. The product sells for Rs. 60 per unit and has a contribution margin (C/M) ratio of 40 per cent. The company's fixed expenses are Rs. 360,000 per year.

- (i) Determine the break-even point in units and sales Rupees.
- (ii) What sales level in units and in sales Rupees is required to earn an annual profit of Rs. 90,000?
- (iii) Assume that through negotiation with the manufacturer the Super Sales Company is able to reduce its variable expenses by Rs. 6 per unit. What is the company's new break-even point in units and in sales Rupees?

(15 marks)

SECTION B - TAXATION

Q5.

- (a) Explain the requirements for a valid appeal against an assessment of income tax. (Marks 06)
- (b) Describe the grounds on which additional assessments are issued to tax payers. (Marks 06)
- (c) Explain the procedure adopted to recover the income taxes in default. (Marks 06)
- (d) Explain the payment procedure of VAT Input taxes and VAT Output taxes. (Marks 07)

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)