

THE OPEN UNIVERSITY OF SRI LANKA
 Department of Civil Engineering
 Construction Management Programme - Level 7
CEM7103 -FINANCIAL MANAGEMENT AND TAXATION
FINAL EXAMINATION - 2015/2016
 Time Allowed: Three (03) Hours



Date: 22-11- 2016 (Tuesday)

Time: 0930 - 1230 hrs.

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

SECTION A - FINANCIAL MANAGEMENT

Q1.

The following details were extracted from the books of Mr Perera's company

	Rs	Rs
Cash	13,000	
Sundry debtors	10,000	
Bill receivable	8,500	
Opening stock	45,000	
Building	50,000	
Furniture and fittings	10,000	
Investment (Fixed Deposits)	5,000	
Plant and Machinery	15,500	
Bills payable		9,000
Sundry creditors		20,000
Perera's capital		78,200
Perera's drawings	1,000	
Sales		100,000
Sales discount	400	
Purchases	30,000	
Freight in	1,000	
Purchase discount		500
Sales salary expenses	5,000	
Advertising expenses	4,000	
Miscellaneous sales expenses	500	
Office salary expenses	8,000	
General expenses	1,000	
Interest income		1,000
Interest expenses	800	
Total	208,700	208,700

Closing stock on December 31st 2014 was Rs 10,000/-

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

(Marks 12)

(b) Prepare the balance sheet as at 31st December 2015.

(Marks 09)

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

- Quick Asset ratio;
- Rate of stock turnover

(Marks 04)

Q2.

(a) Explain briefly the following terms and categorize their impact on Assets & Liabilities.

(Marks 12)

1. Depreciation
2. Prepayments
3. Accruals
4. Account Receivables

(b) Prepare the Trial Balance for the following transactions (for a bicycle repair shop).

Date	Transaction
Sep 1	Owner contributes \$7500 in cash to capitalize the business.
Sep 8	Purchased \$2500 in bike spare parts on account, payable in 30 days.
Sep 15	Paid first month's shop rent of \$1000.
Sep 17	Repaired bikes for \$1100; collected \$400 cash; billed customers for the \$700 balance
Sep 25	Collected \$700 from customer accounts.
Sep 28	Paid \$500 to suppliers for parts purchased earlier in the month.

(Marks 13)

Q3.

(a) Explain different 'elements of cost' taking examples from Sri Lanka.

(Marks 06)

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

(Marks 06)

(c) Write short descriptive notes on the following;

- i) 'Bank reconciliation statement'.
- ii) 'Cash book'

(Marks 07)

(d) Distinguish between 'cost control' and 'cost reduction'.

(Marks 06)

Q4.

(a) Explain the following three concepts, highlighting their importance for a manufacturer producing cement based precast units;

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

(Marks 10)

(b)

ABC enterprises operate in the leisure and entertainment industry and one of its activities is to promote concerts at locations throughout Sri Lanka. The company is examining the viability of a concert in Kandy. Estimated fixed costs are Rs. 12,000,000. These include the

fees paid to performers, the hire of the venue and the advertising cost. Variable cost consists of the cost of prepack buffet which will be provided by a firm of caterers at a price, which is currently being negotiated, but it is likely to be in the region of Rs. 2,000 per ticket sold. The proposed price for the sale of a ticket is Rs. 4,000.

- (i) What is the number of tickets that must be sold to break-even?
- (ii) How many tickets must be sold to earn Rs. 6,000,000 target profits?
- (iii) What profit would result if 8,000 tickets were sold?
- (iv) What selling price would have to be charged to give a profit of Rs. 6,000,000 on sales of 8,000 tickets, fixed costs of Rs. 1,200,000 and variable costs of Rs. 2,000 per ticket?
- (v) How many additional tickets must be sold to cover the extra cost of television advertising worth of Rs. 1,600,000?

(Marks 15)

SECTION B - TAXATION

Q5.

- (a) Describe separately how resident persons and non resident persons are taxed for their profits and income.
(Marks 12)
- (b) Discuss 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) Describe in detail the requirements for a valid appeal against an assessment of income tax.
(Marks 08)
- (b) Describe how an allowance for tax depreciation for plant, machinery and fixtures is granted.
(Marks 08)
- (b) Provide a short descriptive note on 'tax liability of construction contracts'
(Marks 09)