THE OPEN UNIVERSITY OF SRI LANKA
Department of Civil Engineering
Construction Management Programme -Level 7
CEM7103 -FINANCIAL MANAGEMENT AND TAXATION
FINAL EXAMINATION - 2016/2017
Time Allowed: Three (03) Hours

Date: 14-11- 2017 (Tuesday) Time: 0930 - 1230 hrs.
Answer *Four (04)* questions with at least *One (01)* question from section B.

SECTION A - FINANCIAL MANAGEMENT

Q1.

The Trial Balance of a small scale garment manufacturer as on 31st December, 2016 is given below:

	Dr	Cr
	Rs.	Rs.
Capital		20,000
Sundry Debtors	5,400	
Drawings	1,800	
Machinery	7,000	
Sundry Creditors		2,800
Wages	10,000	
Purchases	19,000	
Opening Stock	4,000	
Bank balance	3,000	
Carriage Charges	300	
Salaries	400	
Rent and Taxes	900	
Sales		29,000
Total	51,800	51,800

The following additional information as at 31st December, 2016 is available:

1. Closing Stock Rs. 1,200
2. Outstanding Rent and Taxes Rs. 100
3. Charge depreciation on machinery at 10%
4. Wages prepaid Rs. 400

(a) Prepare the Profit and Loss account for the year ended 31st December, 2016.

(Marks 15)

(b) Prepare a balance sheet as at 31st December, 2016.

(Marks 10)

Q2.

(a) Show the double entries of the following transactions. Follow the example provided for transaction 1.

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

Eg: Transaction **1**

Cash

(1)	**280**		

Sales

		(1)	**280**

(Marks 10)

(b) A company has a beginning inventory of Rs 1,000,000, makes purchases worth of Rs 1,800,000 during a period and has an ending inventory of Rs 500,000.

Calculate the cost of goods sold for the period.

(Marks 05)

(c) A fixed asset having a useful life of 3 years is purchased on 1 January 2015. Cost of the asset is $ 2,000 whereas its residual value is expected to be $ 500.
Calculate the depreciation expense for the years ending 30 June 2015 and 30 June 2016.

(Marks 05)

(d) A snapshot of the financial performance of RM PLC is given below:

Stock at start of year: $30,000
Stock at end of year : $20,000
Annual Sales: $50,000
Annual Purchases: $10,000
Total expenses: $5,000
Capital at start: $62,000
Capital at end: $18,000

Calculate the following ratios;

i)Gross profit margin
ii)Net profit percentage

(Marks 05)

Q3.

(a) Briefly outline the significance of a balance sheet to a General Manager of company.

(Marks 06)

(b) Explain what is understood by 'Provision for bad debts'.

(Marks 07)

(c) Explain the purposes served by 'Ratio Analysis'.

(Marks 06)

(d) Write a short descriptive note on Double Entry Book-Keeping.

(Marks 06)

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) ABC Company manufactures and sells adjustable canopies that attached to motor homes and trailers. The market covers both new units as well as replacement of canopies. ABC develops its 2017 business plan based on the assumption that canopies would sell at a price of Rs. 40,000 each. The variable cost of each canopy is projected at Rs. 20,000, and the annual fixed costs are budgeted at Rs. 10,000,000. ABC after tax profit is Rs. 24,000,000; the company's tax rate is 40 per cent.

While ABC sales usually rise during the second quarter, the May financial statements reported that the sales were not meeting expectations. For the first five months of the year, only 350 units had been sold at the established price, with variable costs as planned. It was clear that after -tax profit projection for 2017 would not be reached unless some actions were taken. ABC's Chairman assigned a management committee to analyse the situation and develops several alternative courses of action.
The following mutually excusive alternatives were presented to the Chairman.

- Reduce the sales price by Rs. 4,000. The sales organisation forcast that with the significantly reduced sales price, 2,700 units can be sold during the remainder of the year. Total fixed and variable units costs will be unchanged.
- Lower variable costs per units by Rs. 2,500 through the use of less expensive raw materials and slightly modified manufacturing techniques. The sales price would also be reduced by Rs. 3,000, and sales of 2,200 units for the remainder of the year are forecast.
- Cut fixed costs by Rs. 1,000,000 and lower the sales price by 5 per cent. Variable costs per unit will be unchanged. Sales of 2,000 units are expected for the remainder of the year.

i) If no changes are made to the selling price or cost structure, determine the number of units ABC must sell
  - In order to breakeven
  - To achieve its after-tax profit objective

ii) Determine which one of the alternatives ABC should select to achieve its annual after-tax profit objectives.

(Marks 14)

SECTION B - TAXATION

Q5.

(a) Describe the requirements for a valid appeal against an assessment of income tax.
(Marks 06)

(b) Explain 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 taxes.
(Marks 06)