FACULTY OF ENGINEERING TECHNOLOGY
POSTGRADUATE DIPLOMA IN TECHNOLOGY IN INDUSTRIAL ENGINEERING – LEVEL 7
FINAL EXAMINATION – 2005/2006

MEM 7213 / MEP1203 – INDUSTRIAL ECONOMICS AND FINANCIAL ACCOUNTING

DATE : ***18th March 2006***
TIME : ***0930 hrs – 1230 hrs***
DURATION : ***Three (03) hours***

This question paper consists of eight (08) questions. Answer any five (05) questions. All questions carry equal marks.

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1. The following schedule of balances was entrusted from the accounting records of ZZZ Ltd as at 31 August 2004.

Stocks as at 1st September 2003;

	Units	Rs.
Raw Materials	2710	13550
Working in Progress (60% completed)	325	9750
Finished Goods	320	14080

Purchases and expenses for the year ended August 2004 are given below.

	Rs.
Raw materials	237,650
Indirect materials	2,162
Direct Wages	63,230
Factory Power	4,550
Factory heating and lighting	1,975
Office heating and lighting	930
Printing and Stationary	1,264
Postage and telephone	520
Factory salaries	11,500
Office salaries	9,900
Factory insurances	1,210
Other insurances	450
Depreciation - Factory equipment and machinery	5,000
Office equipment and Machinery	650
Office expenses	1,680
Advertising	850
Provision for unrealized profit on finished goods stocks	1,280
Sales of manufactures production as at 31 August 2004	378,120

Following additional information is relevant to the above accounting period :

a) Finished goods manufactured during the accounting period are transferred from the factory at a manufacturing price of cost production plus 10%.

b) All finished goods stock on hand at 1 September 2003 were sold during the year 31st August 2004.

c) Stocks as at August 2004 were :

Raw Materials	Rs. 24,000.00
Work in Progress (75% completed)	300 Units
Finished goods	360 Units

d)	Finished goods transfer from factory	6342 Units
e)	Prepayments as at 31 August 2004.	Rs.
	Factory insurance	116
	Other insurances	45
f)	Accruals as at 31st August 2004	Rs.
	Direct wages	1,342
	Factory heating and lighting	197
	Office heating and lighting	43
	Factory Power	350

You are required to prepare the following accounts for the year ended 31 August 2004 in respect of ZZZ Ltd.

a. Manufacturing Account.

b. Trading and Profit & Loss Account.

2. Ratnayake Brothers, has the following balance Sheet / at the end of December 2004 and 2005.

	31 Dec. 2004		31 Dec. 2005	
	Rs. ,000	Rs. ,000	Rs. ,000	Rs. ,000
Fixed Assets				
At Cost	50		80	
Depreciation to date	20		22	
		30		58
Current Assets				
Stocks	28		36	
Debtors	17		14	
Cash at Bank	12		28	
	57		78	
LESS				
Current Liabilities				
Creditors	7		14	
Dividends Proposed	3		2	
	10		16	
Net current assets		47		62
Net Assets		77		120
Long Term Liabilities :				
10% Debentures		–		20
Share Capital				
Ordinary Shares of Rs. 10/= each		50		60
Share premium Account		10		15
General Reserves		5		10
Profit & Loss Account		12		15
		77		120

The dividend proposed for 2004 was paid in full on 03rd March 2005. During 2005, plant was sold for Rs. 9000 which originally cost Rs. 10,000 and had been depreciated by Rs. 3,000. The profit on disposal had been credited to the profit and loss account.

You are required to prepare a cash-flow statement for the year ended 31 December 2005.

3\. Manufactures Ltd have approached your company for an extension of credit terms. The following information from the last three annual financial statements of Manufactures Ltd has been extracted for you.

		1982	1983	1984
A	Financial position As at 30th June			
	Rs.	'000	'000	'000
	Goodwill	250	250	250
	Fixed assets	805	865	920
	Stocks	700	900	920
	Debtors	605	640	784
	Cash in hand and at Bank	60	-	-
		2420	2655	2774
	10% preference Share Capital	500	500	500
	Ordinary Share Capital	750	750	750
	Resources	450	463	488
	Future Taxation	60	62	50
	Current Liabilities	660	880	1016
		2420	2655	2774
B	Net Sales	3,500	3,800	4,300
C	Gross Profits	700	370	750
D	Net Profit (after tax)	150	150	150

As financial advisor to the Company you are required to frame a brief memorandum to your Managing Director in relation to the working capital, stocks, Debtors, fixed assets and proprietorship positions. Give your recommendations.

4\. a. What is ratio analysis ?

b. Broadly classify financial ratios into different groups.

c. Define the following accounting ratios, emphasizing the importance of each to the relevant user.

- i) Return on Capital employed.
- ii) Net profit margin.
- iii) Fixed assets to sales percentage.
- iv) Rate of stock turnover.
- v) Debtor's payment period.
- vi) Creditor's payment period.
- vii) Current ratio.
- viii) Quick Assets ratio.

d. Comment on limitations of ratio analysis.

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5. a. "The scarcity is the central problem for any economy". Discuss this statement.

   b. What do you understand by "Elasticity of Demand" for a product ?

   c. What are the factors which influence the price elasticity of demand ?

6. a. Distinguish between macro economics and micro economics.

   b. Distinguish clearly between the market conditions in which a company is a 'price taker' and those in which it is a 'price maker'.

   c. Distinguish between cyclical and technological unemployment.

7. a. What are the major macro economic goals ?

   b. How difficult it is for the government to achieve these goals simultaneously.

   c. Why fairness and equity are important in economic policy management of a country ?

8. Write brief notes on the five (05) of the following.

   i Price Discrimination.

   ii Total Utility and Marginal Utility.

   iii The Cost-Push inflation.

   iv Objectives of business organizations.

   v Off balance sheet financing.

   vi Under what circumstances freehold land should be depreciated.

   vii Contingent liabilities.

   viii Books of Prime Entry in accounting.

   ix Concept of materiality in accounting.