



**FACULTY OF ENGINEERING TECHNOLOGY
POSTGRADUATE DIPLOMA IN TECHNOLOGY IN
INDUSTRIAL ENGINEERING – LEVEL 7**

FINAL EXAMINATION – 2007/2008

**MEM 7213 / MEP1203 – INDUSTRIAL ECONOMICS AND
FINANCIAL ACCOUNTING**

042

DATE : 27th APRIL 2008
TIME : 0930 hrs – 1230 hrs
DURATION : Three (03) hours

INSTRUCTIONS

- Answer only five (05) Questions. You should select any three (03) questions from part A and any two (02) questions from part B.
 - Each questions carry equal marks.
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Part A

Q1)

The authorized capital of Gama Ltd is Rs. 800,000/- which consists of 6,000 , 5% redeemable preference shares of Rs. 50/-each and 10,000 ordinary shares of Rs.50/- each. Company has issued only 4,000 redeemable preference shares and 6,000 ordinary shares to the public.

The Trail balance of Gama Company Ltd as at 31st March 2008 is given as follows:

Closing stock	32,000	
Trading profit		180,000
Director fees	18,000	
Audit fees	12,500	
Traveling Expenses	2,500	
Advertising	5,000	
Debtors & Creditors	18,500	8,500
10% debenture		25,000
5% investments-Quoted	10,000	
10% investments-Unquoted	15,000	
Discounts paid and received	1,250	750
Rent	5,000	
Electricity	7,500	
Bills payable & receivable	6,500	3,500
General reserve		20,000
Good will	14,000	
Preliminary expenses	15,000	
Share premium		25,000

Fixed Assets and Accumulated Depreciation as at 01/04/2007

Furniture & Acc. Depreciation	75,000	25,000
Motor vehicle & Acc. Depreciation	325,000	75,000
Machinery & Acc. Depreciation	500,000	200,000
Ordinary share capital		300,000
Preference share capital		200,000
Tax paid for the assessment year 07/08	35,000	
P&L balance as at 1/4/2007		35,000
Total	<u>1,097,750</u>	<u>1,097,750</u>

The following information is also available

- Bad debts for the financial year, amounting to Rs. 500 are to be written off and provision for doubtful debts should be maintained at 5% of the outstanding debtors.
- The company provides depreciation on fixed assets as follows.
 - 1) Furniture will be depreciated at 5% on the straight line method.
 - 2) Remaining fixed will be depreciated at 10% on reducing Balance Method.
- Interest payable for debentures & interest receivable for all kinds of investments were found to be arrears at the end of the financial year.
- Electricity payment of Rs.1500/= incurred for the month of March 2008 was not paid as yet.
- There were areas and advance payments in advertising and rent for the amounts of 1000/= and 1200/= respectively on 31/04/2008.
- Income tax totally payable for the year of assessment 2007/2008 was valued as 45000/=.
- Board of director decided to make the following adjustments at the end of the year.
 - 1) To write off 50% of both Goodwill & Preliminary Expenses.
 - 2) To increase the value of General reserve by 25%.
 - 3) To declare the dividend of 5% on ordinary share capital and dividend for Preference shares as determined earlier.

You are required to prepare the following to be submitted to the Board of directors.

- Profit and loss account of Gama Company Ltd for the year ending 31st March 2008.
- Balance Sheet of Gama Company Ltd as at 31st March 2008. (20 Marks)

Q2)**Part 1**

Sunil, De-Silva and Gama were carrying on a partnership business and the Balance sheet of the partnership business extracted as on 31st March 2007 was as follows.

Capital:		Fixed Assets:	
Sunil	75,000	Motor Van	150,000
De-Silva	35,000	Furniture	40,000
Gama	20,000	Investment (10%)	23,000
Net profit	80,000	Closing stock	30,000
Current Acc balances		Debtors	80000
Sunil	18,000	(-) Provision debts	<u>(2500)</u>
De-Silva	(6,500)		77,500
Gama	8,500	Cash	38,200
Loan from De-silva	100,000		
Creditors	28,700		
	<u>358,700</u>		<u>358,700</u>

When calculating the net profit, following transactions were not taken in to consideration. After the profit determination from the profit and loss account, it was directly transferred to the balance sheet without making any appropriation among the partners.

- Interest of 10% on investment was to be received.
- Mr. Sunil has drawn the goods worth of Rs. 1,000/= monthly for the whole year without any entries.
- Servant of Mr. Gama's monthly salary amounting to 1000/= was included in partnerships business for 6 months.
- Arrears in rent 1300/= were not recorded in the books as yet.

Partnership agreement:

- Mr. Sunil, Mr. De-Silva and Mr. Gama are the partners. Profit and losses should be shared among the partners in the ration of 2:2:1
- Mr. Sunil and Mr. Gama are managing the business, therefore they are entitled to get a monthly salary of Rs. 2,000/- and 1,500/- respectively.
- Partners are entitled for an interest of 10% on the balance appearing in the capital accounts.
- Partners will be given an interest of 8% for the loans provided to the partnership business.

You are required to prepare the following for the partnership business of Sunil, De-Silva and Gama

- Profit and loss appropriation account for the year ending 31/03/2008
 - Partners Current account as on 31/03/2008
 - Balance sheet as at 31/03/2008
- (12 Marks)

Part 11

Write short notes to any three (3) topics from the following.

- Differences between private Company and Partnership
 - Partnership Agreement
 - Partnership Law
 - Goodwill in partnership
- (8 Marks)

Q 3)

Senaka Garments have been manufacturing and selling garments of various sizes to market for many years. It produces several Garments in parallel. There are three major departments under which the manufacturing process is going on, that is, cutting, sewing and packing. The cost incurred for job No 501 which is a specific garment is as follows.

Material used

Material type A- 125 units of Rs 75/= each
 Material type B- 80 units of Rs. 130/= each

200 units of Material C were purchased at a price of 45/= per each Kg during the year. In material C, only 75% of material purchased during the year was used for job no 501.

Other indirect materials used at cost was Rs. 2500/=

Labor hours worked

Cutting Department - 25 hours @ wage rate of Rs. 15/= per hour
 Sewing Department- 45 hours @ wage rate of Rs. 35/= per hour
 Packing Department- 20 hours @ wage rate of Rs. 22/= per hour

Total Variable Overheads absorbed and total hours worked in each manufacturing related department are as follows

Department	Total Overhead in Rs	Total hours worked
Cutting	56250/=	11250
Sewing	184000/=	23000
Packing	94250/=	14500

In addition to the variable overhead, they annually incur Fixed overhead of Rs.180000/= collectively for all three departments if total labor hours worked is up to 50000.

They add the profit margin of 25% on the cost of production.
Then find out the following.

- The total cost of the job no 501
- The price to be charged to the job no 501

(20 Marks)

Q4)

- a) Alpha Ltd produces and sells Milk packets to the market. The following details are given pertaining to their business.

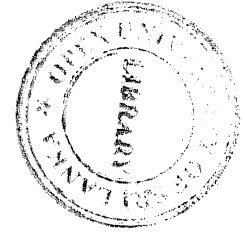
Total packets sold per year -- 40,000 at the rate of Rs.250/= per packet.

Variable cost per packet- Rs.170/=

Total fixed cost- Rs.1,500,000/=

Then Find the following

1. Profit Volume (P/V) ratio
2. Break Even point (BEP) in sales volume
3. Break Even point (BEP) in sales revenue (Rs)
4. Margin of safety in units and revenue (Rs).
5. Profit earned when the unit sold stands at 35,000
6. Additional units to be sold to earn a profit of 1.8 million
7. Assume that variable cost of milk has gone up by Rs.10/= in world market. Then calculate the new price to be set to earn the same profit as they were earning when the units sold stands at 40,000.



(12 marks)

- b) From the following table of forecasted income and expenditure, prepare a cash budget for the three months from January to March 2008.

The bank balance was Rs.80, 000/= on 1st January 2008.

	Sales	purchases	wages	Factory exp	selling Expens
November	95,000	52,000	5,600	3,800	10,000
December	90,500	64,500	4,400	2,900	14,000
January	65,000	45,000	3,000	6,100	15,000
February	80,000	45,000	3,800	4,200	17,000
March	75,000	41,000	2,700	4,000	13,000

Consider the following information.

- All the sales and purchases were made on credit. One month credit period was allowed to debtors and was received from creditors to settle the balance due.
- A sales commission of 5% on sales, due two months after sales, is payable in addition to selling expenses shown in the table.
- A bonus payment of Rs. 7500/= will be payable in every March.
- Wages, Factory expenses and selling expenses were paid in the same month it incurs.

(8 Marks)

Part B

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- Q5. a) Using Demand and Supply analysis explain the market outcome when,
i government imposes a tax on the supply
ii government imposes a subsidy on the supply. (8 marks)
- b) "The Cobweb effect is used to present a more realistic and dynamic analysis of the lagged response of supply to changes in price" Discuss. (12 marks)
- Q6. a) "In Oligopolistic markets, there is relative Price stability" Do you agree? Explain with the help of kinked Demand Curve. (7 marks)
- b) In which kind of market do the firms providing Cellular phone service in Sri Lanka operate? Justify your answer. (4 marks)
- c) How does the Monopolistically competitive firm achieve the equilibrium in the long Run? Briefly comment on its efficiency. (9 marks)
- Q7. a) Explain what is meant by Demand – Pull and Cost – push inflation? (6 marks)
- b) Explain the causes behind the present high inflationary situation in Sri Lanka. What steps can be taken to control the high inflationary situation? (14 marks)

Answer

Q1.

Q2.

Q3.

Q4.