

**FACULTY OF ENGINEERING TECHNOLOGY
POSTGRADUATE DIPLOMA IN TECHNOLOGY
IN INDUSTRIAL ENGINEERING – LEVEL 7
FINAL EXAMINATION – 2008/2009**



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

DATE : 14th March 2009
TIME : 0930 hrs – 1230 hrs
DURATION : Three (03) hours

INSTRUCTIONS

- Answer any three (03) questions from part A and any two (02) questions from part B. Total number of questions to be answered from both part A and part B are five (05)
- Each questions carry equal marks.

Part A

Answer any three (3) questions from part A.

Q1)

The authorized capital of Sarath Ltd is Rs. 120 million which consists of 500,000, 5% redeemable preference shares of Rs. 100/= each and 700,000 ordinary shares of Rs.100/= each. Company has issued only 200,000 redeemable preference shares and 400,000 ordinary shares to the public.

The Trail balance of Sarath Company Ltd as at 31st March 2008 is given as follows;

Balances	Dr(000)	Cr(000)
Packaging Expenses	760	
Trading profit		46,700
Director's salary	795	
Audit fees	750	
Closing stock	850	
10% debenture		2,500
Debtors & Creditors	3,350	760
General reserve		1,400
5% investments-Quoted	8,800	
10% investments-Unquoted	9,200	
Advertising	680	
Rent	725	

Discounts paid and discount received	110	60
Electricity	750	
Good will	37,000	
Preliminary expenses	28,000	
Bills payable & bills receivable	650	350
Fixed Assets and Accumulated Depreciation as at 01/04/2007		
Furniture & Acc. Depreciation	7,000	2,000
Machinery & Acc. Depreciation	7,500	2,500
Motor vehicles & Acc. Depreciation	9,350	1,350
Ordinary share capital		40,000
Preference share capital		20,000
Tax paid for the assessment year 07/08	2,200	
P&L balance as at 1/4/2007		850
Total	<u>118,470</u>	<u>118,470</u>

The following information is also available

- Bad debts amounting to Rs. 350,000/= were to be written off and in the remaining debtors 5% was to be reserved for provision for doubtful debts. These entries were not made.
- Company policy on depreciation was as follows.
 - Furniture to be depreciated at 10% on the straight line method.
 - Machinery to be depreciated at 5% on reducing Balance Method.
 - Motor vehicle to be depreciated at 10% on reducing Balance Method.
- Both interest payable on debentures & interest receivable on all kinds of investments for the whole financial year were found to be arrears.
- Advertising expenses payable to Naresh Advertising agency amounting to Rs.120, 000/= was found to be arrears at the end of the financial year.
- Income tax totally payable for the year of assessment 2007/2008 was estimated as Rs. 45000/=.
- In rent Rs.125, 000/= can be forwarded to next year.
- Board of directors decided to make the following adjustments at the end of the financial year.
 - 1) To write off 25% in preliminary Expenses.
 - 2) To increase the value of General reserve by 20%.
 - 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 Sarath Company Ltd for the year ending 31st March 2008.
- Balance Sheet of Sarath Company Ltd as at 31st March 2008. (20 Marks)

Part 1
 Amal, Vimal and Kamal were the partners of the business and their partnership agreement was as follows.

Partnership agreement:

- Amal, Vimal and Kamal are the partners and profit and losses should be shared among them in the ratio of 3:2:5
- Mr. Vimal and Mr. kamal are managing the business, therefore they are entitled to get a monthly salary of Rs. 3,000/- and Rs. 2,500/- respectively.
- Partners are entitled for an annual interest of 12 % on year end capital account balances.
- Partners will be given an interest of 10% for the loans provided to the partnership business.

Balance sheet of the partnership business of Amal, Vimal and Kamal extracted as on 31st March 2018 was as follows.

Capital:		Fixed Assets:		Rs.
Amal	300,000	Land and building		780,000
Vimal	200,000	Furniture and fittings		420,000
Kamal	500,000	15 % Investment		150,000
Profit	180,000	Goodwill		230,000
Current Acc balances :		Current Assets:		
Amal	42,000	Closing stock		40,000
Vimal	(12,000)	Debtors		83,000
Kamal	20,000	Cash		27,000
from Vimal	320,000			
Bank Loan	140,000			
Current Liabilities:				
Debtors	40,000			
	<u>1,730,000</u>			<u>1,730,000</u>

When net profit was calculated, following adjustments were not made. After profit determination from profit and loss account, it was directly transferred to balance sheet without making an appropriation among the partners.

- 15% Investment has been appearing in the balance sheet from the beginning of the financial year and 20% bank loan was received on 1st of October 2008. Vimal granted a loan of Rs. 320,000/= to the partnership business on 1st of January 2008.
- Interest of 15% on investment for the whole year was not received as yet.
- Interest of 20% on bank loan was not paid since the loan was received.
- Interests on Vimal loan was not paid as yet.
- Mr. Vimal has drawn the goods worth of Rs. 2,000/= per month for whole year without any entries.
- Monthly salary of Rs.3000/= paid to servant of Mr. Kamal for 3 months from 1st January 2008 to 31st March 2008 has been included in partnership accounts.
- Kamal has paid his wife's life insurance payment of Rs15000/= from partnership cash.
- In debtors Rs. 3,000/= became doubtful debts. It was not recorded in the books as yet.
- Entries for clauses in partnership agreement were not made as yet.

You are required to prepare the following for the partnership business of Amal, Vimal and Kamal

- Adjusted profit and loss account for the year ending 31/03/2008
- 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

(20 Marks)

Q3)

Part 1

Aruna ice cream is popular among school children due to its taste and flavor.

A job order has been placed with job no of 756 to produce Aruna ice cream. The following information relates to that job.

Direct materials used for Job no 756.

10 Kg of sugar. Each Kg of sugar is priced at Rs. 65/=

3 packets of milk powder each of which is priced at Rs. 270/=

Flavors, and other minor materials purchased was at Rs.4200/=. These materials were shared equally among Job no 756, Job no 892 and Job no 375.

Administration cost incurred for Job No 756 is Rs.3500/=.

Production process of any type of Aruna ice cream has to go through mixing, cooling and packaging department. Direct labor hours worked and the hourly payment for labors in each of these departments were as follows

Mixing 135 hrs at Rs 15/= per hour

Cooling 120 hrs at Rs 16/= per hour

Packaging 50 hrs at Rs 22/= per hour

Total amount of production overhead and the total hours worked at each of above departments are as follows

Department	Amount of OH	Total hours worked
Mixing	Rs 80,000	20000
Cooling	Rs 161,250	21500
Packaging	Rs 252,000	31500

From the given information

Find out total cost of Job no 756.

If they could produce 250 cups of ice cream, find out the cost per cup of ice cream

If profit margin is 35 % on cost of production, find the selling price of a cup of ice cream.

(14 marks)

Part 11

Break even point (BEP) analysis is considered to be important for managers in planning their production activities". Briefly explain following managerial accounting terms. Show how you would calculate each of these terms.

- Break even point (BEP)
- Profit volume ratio (P/V ratio)
- Margin of safety (MS)

(6 marks)

Q4)**Part 1**

From the information given below, prepare cash budget of Lal Traders for three months time beginning from July 2009 to September 2009.

	Purchases	Sales	Admin Exp	Sel&Dis.Exp	Comm.Recei
May	65,000	95,000	7,800	5,600	7,800
June	100,000	140,500	6,700	6,500	Nil
July	120,000	110,000	9,500	3,800	6,800
August	140,000	190,000	8,600	5,100	8,800
September	123,000	185,000	9,100	4,200	5,880

Consider the following information.

- All purchases are made on credit and it would be settled in two equal installments in the next two consecutive months.
- All sales are made on cash basis.
- Administration expenses shown in the table includes depreciation of Rs. 2000/= per month made on its fixed assets. In rest of the administration expenses, 50% will be paid in the same month it incurs and the balance will be paid in following month.
- Selling and distribution expenses would be paid in following month.
- The table shows the commission receivable on distribution service provided to another company. Normally company receives this commission in one month time.
- Mr.Lal owner of the business draws cash of Rs. 2000/= per month from cash available in business.
- One building belonging to Lal Enterprise is expected to be sold at Rs.82, 000/= in August 2009.
- It is expected to have the cash balance Rs.15000/= on 1st July 2009.
- If there is any shortage for cash in any month it will be settled through bank draft.(Ignore the interest)

(14 marks)

Part 11

Distinguish / differentiate any three (3) from the following.

- Financial Accounting and Management Accounting
- Ordinary shares and preference shares
- Private Company and Public company
- Job costing and process costing

(6 Marks)

Part B

Answer any two (02) questions from Part B

- 5) (a) Discuss the advantages and disadvantages of an Oligopoly with examples. (05 marks)
- (b) "Kinked demand curve theory explains the rigidity of price and quantity in Oligopolistic markets" Explain with illustrations. (07 marks)
- (c) Oligopolistic firms use both the price and non-price competition against their rivals. Explain these methods of competition providing examples. (08 marks)
- (a) What are the major Macro-Economic goals of a country? Briefly explain the government's role in achieving these goals. (06 marks)
- (b) "Countries face lot of barriers that would prevent them from achieving desired economic growth". Discuss the given statement in relation to developing countries in general and Sri Lanka in particular. (14 marks)
- (a) What is meant by "J" curve effect? (06 marks)
- (b) How is the exchange rate determined under,
(i) Fixed Exchange Rate System.
(ii) Floating Exchange Rate system.
Discuss the advantages and disadvantages of such systems. (09 marks)
- (c) What is meant by the Terms of Trade ? (09 marks)
- What makes the Terms of Trade favourable or unfavourable for a country ? (05 marks)