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THE OPEN UNIVERSITY OF SRI LANKA
FACULTY OF ENGINEERING TECHNOLOGY
POSTGRADUATE DIPLOMA IN TECHNOLOGY IN INDUSTRIAL ENGINEERING – LEVEL 7

FINAL EXAMINATION – 2010/2011

MEM 7213 – INDUSTRIAL ECONOMICS AND FINANCIAL ACCOUNTS

DATE : *13 March 2011*

TIME : *0930 hrs – 1230 hrs*

DURATION: *Three (03) hours*

Answer three (03) questions from PART A including Question 01 and two (02) Questions from PART B. Answer Only five (05) questions.

PART A

Q1) Compulsory Question

Arun, Balan and Camel were running a partnership business and the summarized Balance Sheet of their partnership business as on 31st March 2010 was as follows.

Capital:		Fixed Assets:		
Arun	95,000	Motor Van		190,000
Balan	75,000	Furniture		50,000
Camel	60,000	Investment (15%)		55,000
Net profit	70,000	Closing stock		40,000
Current Account balances		Debtors	82,500	
Arun	15,000	(-) Provision debts	(2500)	80,000
Balan	(7,500)			
Camel	12,500	Cash		45,000
Loan from Balan	120,000			
Creditors	20,000			
	460,000			460,000

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

- 6 months interest on 15% investments was receivable for the year ended 31st March 2010.
- Mr. Balan a partner of this business has drawn the goods worth of Rs. 1,000 monthly for the whole year without any entries.
- Monthly salary of Rs. 1,500 paid for 6 months to the servant of Mr. Arun a partner of this business was included in accounts of partnership business.
- Arrears in rent Rs. 1300/= were not recorded in the books as yet.

Partnership Agreement:

- Arun, Balan and Camel are the partners. Profit and losses should be shared among the partners in the ration of 2:2:1
- Arun and Camel are managing the business, therefore they are entitled to get a monthly salary of Rs. 2,500/- and 1,800/- respectively.
- Partners are entitled for an interest of 10% on balances appearing in capital accounts.
- Partners will be given an interest of 10% for loans provided to partnership business.

You are required to prepare the following for the partnership business of Arun, Balan and Camel

i) Profit and loss appropriation account for the year ending 31/03/2010
ii) Partners Current account as on 31/03/2010
iii) Balance sheet as at 31/03/2010

(30 Marks)

Q2)

Roshan Company produces Juice bottles branded as "Roni" to local market. They have estimated following details to their juice manufacture for next three months time.

Total bottles budgeted to be sold – 65,000 at Rs. 150/= per bottle.
Variable cost per bottle – Rs. 90/=
Total fixed cost – Rs. 1,500,000/=

Find the following

1. Contribution to sales (C/S) ratio
2. Break Event Point (BEP) in sales amount (Rs.) and in unit sales.
3. Margin of safety in units and in sales revenue (Rs).
4. Profit earned when unit sold stands at 50,000
5. Additional units to be sold to earn a profit of Rs. 4.5 million.

(15 Marks)

Q3)

From the following forecast income and expenditure, prepare a cash budget for the three months from April to June 2011. The bank balance is expected to be Rs. 80, 000 on 1st April 2011.

	Sales	Purchases	Wages	Factory exp	Advertising
February	45,000	32,000	4,600	3,800	9,000
March	88,000	54,000	4,400	2,900	11,000
April	98,000	64,000	4,000	6,100	12,000
May	78,000	46,000	3,700	4,200	13,000
June	96,000	64,000	4,000	4,000	11,000

Consider following information.

- All sales and purchases are made on credit. It is company policy that one month credit period is allowed to debtors and two months credit period is obtained from creditors.
- A sales commission of 5% on sales, due two months after sales, is payable.
- A bonus payment of 7500/= will be payable in every May.
- Wages, Factory expenses and Advertising expenses are normally paid in the month it incurs.
- A dividend on investment is to be received on every June.
- In case of any cash shortage a bank overdraft can be arranged. Ignore any interest expenses on bank overdraft.

(15 Marks)

Q4) **Compare and Contrast** any **three (3)** from the following

i) Finance companies and Commercial Banks
ii) Private Company and Public company
iii) Job costing and process costing
iv) Financial Accounting and Management Accounting

(15 Marks)

PART B

Answer any Two (02) Questions.

Q1)

a. What is meant by Price Regulations? Why is it necessary to regulate prices?

(5 Marks)

b. Using Demand and Supply analysis, explain the following with illustrations.

i) The government introduces a maximum legal price on a kilogram (kg) of rice (Control Price).

ii) The government provides a guaranteed price on a Liter of milk.

(7 Marks)

c. Using illustrations, explain the following (consider that both the demand and supply curves have a normal slope)

The market outcome when the government;

i) imposes a unit tax on the supply of a good.

ii) provides a unit subsidy on the supply of a good.

(8 Marks)

Q2)

a. Using illustrations, explain whether the following statement is "true" or "false"
"A firm operating in a Perfectly Competitive market is a price maker"

(6 Marks)

b. i) Compare and contrast the Perfectly Competitive and Monopolistically Competitive markets.

(6 Marks)

ii) "The firms operating in a Monopolistically Competitive Markets can not continue earning super normal profits in the long run". Do you agree? Explain using illustrations.

(8 Marks)

Q3)

a. Explain the following.

i) Demand-Pull inflation.
ii) Cost-Push inflation.

(6 Marks)

iii) What are the measures that can be taken by the government to control Demand-Pull and Cost-Push inflationary situations?

(4 Marks)

b. i) Restrictions on international trade are imposed by governments with the objective of giving priority to national needs over international needs. Explain briefly.

(4 Marks)

ii) What are the barriers to international trade?
iii) What are the reasons that can justify barriers to international trade?

(6 Marks)