

THE OPEN UNIVERSITY OF SRI LANKA
 Department of Civil Engineering
 Construction Management Programme - Level 7
 Post Graduate Diploma / Stand Alone Courses
GEM7103 - FINANCIAL MANAGEMENT AND TAXATION



FINAL EXAMINATION - 2008
 Time Allowed: Three (03) Hours

Date: 08-04-2009 (Wednesday) Time: 0930 - 1230 hrs.

Answer Four (04) questions with at least One (01) question from section B.

SECTION A - FINANCIAL MANAGEMENT

Q1.

- (a) Briefly explain the different books used in 'book keeping'. (Marks 05)
- (b) Explain the purposes served by 'Ratio Analysis'. (Marks 05)
- (c) Distinguish between horizontal and vertical analysis of financial statements. (Marks 05)
- (d) Differentiate between 'cash flow statements' and 'fund flow statements'. (Marks 05)
- (e) Briefly outline the significance of a balance sheet to a General Manager of company. (Marks 05)

Q2.

- (a) Briefly describe the objectives of preparing a Bank reconciliation statement. (Marks 06)
- (b) Explain the effect of inflation on accounting in general and indicate how historic depreciation may be adjusted to account for inflation. (Marks 06)
- (c) Explain what is understood by capital gearing. (Marks 06)
- (d) Briefly explain the main purposes of a system of costing. (Marks 07)

Q3.

The following list of account balances has been extracted from the books of Indra plc, as at 31st March 2008.

	Rs.
Building at Cost	900,000
Equipment at cost	575,000
Provision for depreciation on buildings	125,000
on equipment	325,000
Stock on 01-04-2007	274,000
Purchases	2,596,000
Sales	4,050,000
Discounts allowed	33,700
Discount received	44,200
Salaries and wages	523,600
Bad debts	17,200
Loan interest	15,600
Carriage outwards	53,100
Other operating expenses	388,000
Trade debtors	462,000
Trade creditors	336,000
Provision for bad and doubtful debts	2,800
Bank overdraft	1,510
Drawings	145,000
13% Loan	289,300
Capital	981,010

The following additional information at 31st March 2008 is available:

- i) Stock on 31-03-2008 was Rs. 259,000
- ii) Depreciation to be provided as
Buildings - 1% straight line method
Equipment - 10% straight line method
- iii) Other operating expenses include certain expenses prepaid by Rs.5000 and accrued by Rs.2000
- iv) Provision for bad and doubtful debts is to be adjusted to 5% of debtors.
- v) Purchases include goods costing Rs. 10,400 withdrawn for personal use.

(a) Prepare the Trading and Profit and Loss account for the year ended 31st March 2008.

(Marks 12)

(b) Prepare a Balance Sheet as at 31st March 2008.

(Marks 08)

(c) Calculate the following ratios stating the formulae used:

- Acid test or quick ratio;
- Rate of stock turnover

(Marks 05)

Q4.

(a)

Explain following two concepts highlighting their importance for a business organisation.

- (i) Marginal costing
- (ii) Breakeven analysis

(Marks 05)

(b)

ABC Company manufactures and sells a telephone answering machine. The company's income statement for the most recent year is given below:

	Total (Rupees)	Per unit
Sales (20,000 units)	120,000,000	6,000
Less Variable expenses	90,000,000	4,500
Contribution margin	30,000,000	1,500
Less fixed expenses	24,000,000	
Net income	6,000,000	

Management is anxious to improve the company's profit performance and has asked for several items of information.

(i). Compute the company's (Contribution Margin) CM ratio.

(Marks 02)

(ii). Compute the company's break-even point in both units and sales rupees.

(Marks 02)

(iii). Assume that sales increase by rupees 40,000,000 next year. If cost behaviour patterns remain unchanged, by how much will the company's net income increase? Use the CM ratio to determine your answer.

(Marks 04)

(iv). Refer to the original data. Assume that next year management wants the company to earn a minimum profit of rupees 9,000,000. How many units will have to be sold to meet this target profit figure?

(Marks 03)

(v). Refer to the original data. Compute the company's margin of safety in both rupees and percentage form.

(Marks 03)

(vi) In an effort to increase sales and profits, management is considering the use of a higher-quality speaker in the answering machine. The higher-quality speaker would increase variable costs by rupees 300 per unit, but management could eliminate one quality inspector who is paid a salary of 3,000,000 rupees per year. The sales manager estimates that the higher-quality speaker would increase annual sales by at least 20%.

a. Assuming that changes are made as described above, prepare a projected income statement for next year. Show data on a total, per unit, and percentage basis.

b. Compute the company's new break-even point in both units and rupees sales. Use the contribution margin method

c. Would you recommend that the changes be made?

(Marks 05)

SECTION B - TAXATION

Q5. Explain the following type of taxes and levies

- (i) Business Turnover Tax
- (ii) Value Added Tax
- (iii) Economic Service Charge
- (iv) Income Tax
- (v) Dividend Tax
- (vi) With Holding Tax

(Marks 25)

Q6. Explain only five from the items given below;

- (i) Resident Individuals, Non Resident Individuals and Resident Companies
- (ii) Taxable Sources of Income in Sri Lanka
- (iii) BOI Companies
- (iv) Income Tax Assessment issued by the Department of Inland Revenue and a Valid Appeal against the Assessment
- (v) Legal action against errant Tax Payers
- (vi) Assessable Income, Statutory Income and Taxable Income

(Marks 25)