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THE OPEN UNIVERSITY OF SRI LANKA

POSTGRADUATE DIPLOMA/MASTERS IN TECHNOLOGY

IN APPAREL PRODUCTION AND MANAGEMENT

FINAL EXAMINATION – 2013/2014

TTM7135- MANAGEMENT ACCOUNTING AND FINANCIAL MANAGEMENT

DURATION – THREE (03) HOURS

Date: 9th September 2014	**Time: 09.30am-12.30pm**

Instructions:

This paper consists of seven (07) questions.

Total number of questions to be answered is five (05).

Time allowed three (03) hours.

Begin each answer on a new page.

Question No.1

a) Explain in brief the prime objective of accounting. *(4 marks)*

b) State four (04) types of users of accounting information. *(4 marks)*

c) State four (04) alternative objectives of a business firm. *(4 marks)*

d) Explain the responsibilities of directors and auditors with respect to preparation and presentation of financial statements. *(4 marks)*

e) Define the following terms with a suitable example.

i. Assets

ii. Liabilities *(4 marks)*

(Total 20 marks)

Question No.2

Following transactions occurred relating to Asela Enterprise for the month ended 31 July 2014.

1. Asela Started the business investing Rs. 1,000,000
2. Purchased goods for Rs.200,000
3. Obtained a bank loan of Rs.500,000
4. Purchased a machine for Rs.800,000
5. Purchased goods on credit for Rs.400,000
6. Goods sold for Rs.1,200,000 (cost of the goods was Rs.500,000)

7. Goods sold on credit Rs.700,000 (cost of the goods was Rs.300,000)
8. Cash paid to creditors Rs.200,000
9. Cash received from trade debtors Rs.500,000
10. Administrative expenses paid Rs.200,000
11. Loan installment paid Rs.50,000 including interest of Rs.10,000
12. Depreciation of machine for the month is 5% on cost

Required:

i. Record the above transactions in the following accounting equation. *(6 marks)*

Machinery + Stock + Debtors + Cash = Equity + Bank Loan + Creditors

ii. Statement of Income of Asela Enterprise for the month ended 31 July 2014. *(8 marks)*

iii. Statement of Financial Position of Asela Enterprise as at 31 July 2014. *(6 marks)*

(Total 20 marks)

Question No. 3

a. Briefly explain, with a suitable example, the difference between the following terms,
   i. Direct costs and Indirect costs
   ii. Fixed cost and Variable costs *(4 marks)*

b. Following information is relevant to Fashion Hub Ltd that produced 1000 shirts during the month ended 31 July 2014

Cost of fabric	Rs.1000,000
Machine operators salary	Rs.400,000
Other direct costs	Rs.200,000
Depreciation of factory machinery	Rs.200,000
Factory rent	Rs.100,000
Factory electricity	Rs. 50,000
Other manufacturing overhead	Rs. 50,000
Sales and distribution overhead cost	Rs.250,000
Administrative overhead	Rs.150,000
Finance cost	Rs.100,000

Other information

- Company keeps 75% gross mark up on cost of a shirt
- Number of shirts sold during the period 800

You are required to

1. Calculate manufacturing cost per shirt
2. Calculate selling price per shirt
3. Calculate value of the closing stock of shirts (at cost)
4. Prepare statement of income for the month ended 31 July 2014 *(16 marks)*

(Total 20 marks)

Question No. 4

a. Briefly explain the following concepts

   i. Breakeven Point

   ii. Margin of Safety *(4 marks)*

b. Following information relates to Ultra Fashion Ltd, which engages in manufacturing T-shirts, for the month ended 31 July 2014.

Cost of fabric per T-shirt	Rs.400
Sales commission per T-shirt	Rs.100
Monthly salary of machine operators	Rs. 250,000
Monthly salary of production managers	Rs.100,000
Monthly salary of marketing staff	Rs.200,000
Fixed administrative expenses	Rs.150,000
Depreciation of machinery per month	Rs.100,000
Selling price per T-shirt	Rs.1000

Budgeted number of T-Shirts to be produced and sold during the month 5,000

You are required to calculate

1. Variable cost per unit
2. Contribution per unit
3. Total monthly fixed cost
4. Number of units produced and value at the Break Even Point (BEP)
5. Margin of safety
6. Prepare income statement at the budgeted output level
7. Number of units to be sold to make a net profit of Rs.1,200,000 *(16 marks)*

(Total 20 marks)

Question No. 5

a. Briefly explain the reasons as to why an average person prefers to receive Rs.100 today rather than having it tomorrow. *(4 marks)*

b. State four (04) factors you wish to consider when investing your money in a bank fixed deposit. *(4 marks)*

c. Assume that you deposit Rs. 1,000 today in a bank account that pays interest at a rate of 8% per annum. What is the value of your deposit at the end of the year 1, if the bank compounds interest;

   i. Annually
   ii. Monthly *(4 marks)*

d. List four (04) factors you may consider when applying for a bank loan. *(4 marks)*

e. Assume that you are expecting to obtain a bank loan of Rs.200,000 today. You were able to negotiated with the bank management to settle the loan in 5 equal annual installments and the bank loan interest rate is 12% per annum.

   i. What is the value of the annual loan installment that you should pay the bank?
   ii. Prepare the loan repayment schedule for the five years *(4 marks)*

(Total 20 marks)

Question No. 6

a. Following information is relevant for a particular project.

Initial investment Rs.500,000

Project life 4 years

Project cost of capital 15%

Estimated future net **operating** cash flows are given bellow

Year	1	2	3	4
Net Cash flows	100,000	200,000	200,000	400,000

Note: Assume that all the cash flows are occurred at the end of each respective year.

You are required to calculate

i. Project payback period

ii. Net present value *(5 marks)*

b. Following information is relevant for a particular project.

Initial investment	Rs.200,000
Project life	5 years

Project cost of capital is 15%

It is expected that the project will result an annual constant net operating cash flow of Rs.100,000 throughout the project life

You are required to calculate

i. Net present value

ii. Based on your answer for the part i give your recommendation for the project.

(5 marks)

c. Alpha PLC expects to undertake an investment in a new project. The relevant information for the project is given below,

- Project life is 5 years
- Initial investment Rs.2,000,000
- Scrap value of the project after five years is Rs.500,000
- Investment in working capital at the beginning of year 1 is Rs.500,000
- Expected annual sales units 5,000
- Selling price per unit Rs.600
- Variable cost per unit Rs.400
- Annual cash fixed overhead cost Rs.200,000
- Project is exempted from taxation
- 100% of the working capital will be realized at the end of the project
- Project cost of capital is 15%

You are required to calculate

1. Project net cash flow.
2. Net present value of the project. *(10 marks)*

(Total 20 marks)

Question No. 7

a. State four factors you may consider when investing your funds in the share market *(4 marks)*

b. Briefly explain the benefits that an investor may enjoy by investing his funds in the share market. *(4 marks)*

c. Explain the difference between the dividend yield and capital gain *(4 marks)*

d. Caltex PLC has recently paid a dividend per share of Rs.10 It is expected that this dividend will be constant in the future for indefinite period. If the investors' average expected rate of return is 12.5%, what is the price per share of Caltex PLC? *(4 marks)*

e. Boneta PLC has recently paid a dividend per share of Rs.8 for the previous year. It is expected the company's dividend will grow at a constant rate of 5% in the future. If the investors' average expected rate of return is 12.5%, what is the price per share of Boneta PLC? *(4 marks)*

(Total 20 marks)