

THE OPEN UNIVERSITY OF SRI LANKA  
 DEPARTMENT OF TEXTILE & APPAREL TECHNOLOGY  
 POSTGRADUATE DIPLOMA/MASTERS IN TECHNOLOGY  
 IN APPAREL PRODUCTION AND MANAGEMENT  
 FINAL EXAMINATION 2015/2016  
 TTM7135 – MANAGERIAL ACCOUNTING AND FINANCIAL MANAGEMENT  
 DURATION -THREE (03) HOURS



Date: 11<sup>th</sup> December 2016

Total Marks 100

TIME: 09.30am to 12.30pm

*Instructions: This paper consists of seven (07) Questions  
 You should answer only five (05) questions  
 Numbering of the answer in your answer script should follow the numbers assigned to the questions in the paper.  
 Illegible hand writing is liable to decrease marks.  
 Begin each answer on a new page.  
 Use of Non-programmable calculator is allowed.*

**Question No (01)**

- a) “Accounting is known as the “language of business.” What does this mean? Briefly Explain (02 Marks)
- b) What are the main functions of accounting? (04 Marks)
- c) Why do businesses need to produce financial statements? (02 Marks)
- d) What is the business entity concept? Briefly explain with an example. (02 Marks)
- e) What are the primary purposes of preparing following financial statements by a company?  
 i. Statement of Financial Position  
 ii. Statement of Income  
 iii. Statement of Cash Flow (06 Marks)
- f) Why is it necessary to audit financial statements of a limited liability company by independent auditors? (04Marks)
- (Total 20 Marks)**

**Question No (02)**

Mr. Silva is a sole proprietor of Silva and Son Enterprise started a retail shop in January 2016. Following transactions occurred during the month of January 2016. You are required to record the following transactions into the accounting equation. State whether it is increase (+) or decrease (-).

E.g.1. The owner invested money to the business Rs.500,000.

$$\begin{array}{rccccccc} A & = & E & + & L \\ +500,000 & = & +500,000 & + & L \end{array}$$

- 1) The goods were purchased by paying cash at Rs.100,000
- 2) The business bought a motor vehicle Rs.75,000 on cash.
- 3) The business borrowed a bank loan Rs.100,000.
- 4) The business purchased goods Rs.15,000 on credit.
- 5) Sold the goods worth Rs.80,000 for Rs.100,000 on credit.
- 6) Sold the goods worth Rs.5,000 for Rs.4,000 on cash.
- 7) Received money from debtors Rs.15,000.
- 8) Paid money for creditors Rs.10,000.
- 9) Paid different expenditures Rs.5,000.
- 10) Paid house rent Rs.6,000.
- 11) Paid electricity bill Rs.6,000.
- 12) Deposited cash to bank Rs.10,000.
- 13) Purchased furniture Rs.70,000.
- 14) Added an extra capital of Rs.100,000.
- 15) Paid loan installment of Rs.8,000 including interest of Rs.2,500.

**(20 Marks)**

**Question No (03)**

- a. Explain the term working capital. What is the primary objective of working capital management? **(04 Marks)**
- b. What are the factors that affecting to working capital requirements of a business **(04 Marks)**

- c. What are the three main working capital management policy followed by business organizations? **(06 Marks)**
- d. Following information was extracted from PQR Ltd.

Value Rs.

Inventory	140,000
Debtors	90,000
Cash in Hand	70,000
Creditors	100,000
Bank Overdraft	75,000
Accrued Expenses	45,000

You are required to Calculate

- 1) Gross Working Capital
- 2) Net Working Capital

**(06 Marks)**  
**(Total 20 Marks)**

**Question No (04)**

1. What do you mean by "Cost" of a product or service? **(04 Marks)**
2. Mention three (03) specific instances under which cost information is used by managers of a manufacturing firm. **(03 Marks)**
3. Lanka Furniture is a small scale furniture manufacturing entity which recently accepted an order from Sigithi Pre-School to manufacture 100 Desks & Chairs. Consider following information related to the order.

	Value in (Rs)
Opening inventory (wood) as at 01.10.2014	33,000
<b>Expenses related to the business</b>	
Purchased wood	827,000
Rent of the business premise	75,000
Paint and Varnish	280,000
Salary to employees	88,000
Electricity	8,500
Supervisor Charges	35,000
Machine repairs	6,500
Nails and sundries	12,000
Machine depreciation calculated for this order	8,000
Closing inventory (wood) as at 31.12.2014	15,000

You are required to calculate following. Clearly provide assumptions made by you in calculating the same.

- i. Primary Cost
- ii. Overhead Cost
- iii. Total Cost
- iv. Unit Cost of a Chair& a Desk

**(13 Marks)**  
**(Total Marks 20)**

**Question No (05)**

A toilet soap manufacturer produce a toilet soap at a markup of Rs.50.00 for each product. Costs of the production are as follows.

	Cost Value (Rs.)
Direct material per unit	12
Direct Labour per unit	10
Direct other per unit	03
Fixed overhead per unit	13
Fixed Cost of the Production	3,000,000
Forecasted Sales in Units	225,000

- (a) Calculate the Contribution per Unit **(02 Marks)**
- (b) Calculate the C/S Ratio **(02 Marks)**
- (c) Calculate the Break Even Point of new product in unit & value **(04 Marks)**
- (d) Calculate the Margin of Safety **(02 Marks)**
- (e) Calculate the profit of the entity **(02 Marks)**
- (f) If selling price of the toilet soap goes up by 5 rupees, what is the new Break Even Point in units? **(02 Marks)**
- (g) Assume the manufacturer needs to achieve a target profit of Rs.1,000,000.00 from this production during the specified period. How many units should be sold to achieve this target profit before the price goes up mention in (f)? **(03 Marks)**
- (h) After the government imposed few taxes recently, the manufacturer forecasts that he needs to pay Rs.350,000.00 income tax for this production; how many units should be produced to cover tax liability and target profit after the price goes up mention in (f)? **(03 Marks)**

**(Total 20 Marks)**

**Question No (06)**

- a) What are the determinants of time value of money? **(04 Marks)**
- b) ABC Ltd is a company in the construction industry. Following information related to their one of a construction project. The capital expenditure and the net cash inflows of the project are given as follows.

Capital expenditure (Rs.'000)	300,000
Net Cash inflows (Rs.'000)	
Years 1	60,000
Years 2	90,000
Years 3	100,000
Years 4	120,000
Years 5	80,000

- i. You are required to calculate payback period of the project **(06 Marks)**
- ii. If the required rate of the return of the investor is 10%, Calculate NPV and the IRR of the project **(10 Marks)**

**Question No (07)**

- a) The dividend on Max Company Plc's ordinary share will be Rs.3/= in the 1<sup>st</sup> year, Rs.5/= in the 2<sup>nd</sup> year, and Rs. 7/= in the 3<sup>rd</sup> year. The share can be sold for Rs.100/= at the end of the 3<sup>rd</sup> year. If investor's required rate of return in 12%, calculate the intrinsic value of this share? If the market price of the share is Rs 72/= at present, would you recommend to buy this share? **(10 Marks)**
- b) An investor has three bonds (P, Q and R) in his portfolio with a face value of Rs.1000/= and annual coupon rate is 12% for all three bonds. Bond "P" matures in 12 years, and Bond "Q" matures in 05 years and Bond "R" matures in 07 years.
- What will be the value of each bond, if the investor's required rate of return in 08%

**(10 Marks)****(Total 100 Marks)****Copy Right Reserved**