THE OPEN UNIVERSITY OF SRI LANKA
CERTIFICATE IN ENTREPRENEURSHIP AND SMALL BUSINESS MANAGEMENT PROGRAMME
LEVEL 02 - FINAL EXAMINATION- 2018
INTRODUCTION TO ACCOUNTING AND FINANCE - MCC 1206
DURATION – TWO (02) HOURS

Date: 27.10.2018 **Time: 1.30 p.m. To 3.30 p.m.**

Instructions

Answer only three (03) questions including question number one (01).
Show all workings clearly. Use of Non- programmable calculator is allowed.

Question No (01) (Compulsory Question)

Mr. Dammika Silva is running a retail business. The following trail balance was extracted from Dammika Traders as at 31.03.2018 as follows. (Value in Rs.)

Description	Dr.	Cr.
Capital		1,500,000
Land- (at cost)	1,280,000	
Motor Vehicle (at cost)	650,000	
Equipment (at cost)	420,000	
Provision for Depreciation		
Motor Vehicle		280,000
Equipment		150,000
Sales		1,500,000
Inventory as on 01.04.2017	180,000	
Purchases	740,000	
Carried Inwards	12,000	
Administration Expenses	90,000	
Salary	190,000	
Bad Debts	4,300	
Insurance	11,500	
Debtors & Creditors	95,000	146,000
Provision for doubtful Debts as on 01.04.2017		12,000
Discount Received		10,000
Postal Charges	16,000	
Advertising	20,000	
Bank Loan-12%		250,000
Carried Outward	3,200	
Sales Expenses	40,000	
Bank Loan Repayment	60,000	
Cash in Hand & Bank	36,000	
Total	3,848,000	3,848,000

Additional information

i. Closing Inventory as at 31.03.2018 has been valued at Rs.90,000/-
As at 31.03.2018 Insurance Payable is Rs.8,500 and Advertisement pre-payment is Rs.5,000

ii. Fixed Assets have not yet been depreciated for the year 2017/2018
Depreciation Rates
Equipment 05%
Motor vehicle 10%

iii. Provision for doubtful debt should be 10% as on 31.03.2018

iv. Bank loan has been taken for 5 years from Sampath Bank Plc on 01.07.2017

Using the above information, prepare the **Income statement** and **Statement of Financial Position** of the Dammika Traders for the year ended 31st of March 2018.

(Total Marks 40)

Question No (02)

I. List two (02) source documents, used in accounting from which transactions are recognized. **(02 Marks)**

II. What is a primary book ?. List two (02) primary books in accounting **(03 Marks)**

III. Record following two transaction on accounting equation
a. Paid a bank loan instalment through a cheque of Rs.35,000/- of which 17,500/- is the interest.
b. Owner paid Rs.10,000/- out of his pocket money to a supplier. **(02 Marks)**

IV. Mention two instances that lead to imbalance the trial balance **(02 Marks)**

V. Write correct Journal entries to rectify the following two accounting errors.
a. Payment made through a cheque to a creditor Rs.25,125 /-has been credited to a debtor account.
b. Discount receipt of Rs.10,000/- has been identified as discount given.
(04 Marks)

VI. How do you differentiate an asset from a liability in accounting **(04 Marks)**

VII. The following accounts have been extracted from a trail balance of a business.

i.	Buildings	vi	Bad Debts
ii.	Sales	vii	Machinery and Equipment
iii.	Owners capital	viii	Trade Creditors
iv.	Salary paid	ix	Discount received
v.	Bank Loan	x	Loan interest

Required:

i. Classify above accounts as assets, liabilities, equity, incomes and expenses. **(09 Marks)**

ii. Show which accounts are recorded in the Income Statement and Statement of Financial Position. **(04 Marks)**

(Total Marks 30)

Question No (03)

Dambulu Furniture is a small scale furniture manufacturing entity which recently accepted an order from Sigithi Pre-School to manufacture 1000 Chairs. Following information related to the order.

	Value in (Rs)
Opening inventory (wood) as at 01.06.2018	33,000
Expenses specific to the order	
Purchased wood	827,000
Rent calculated for this order	15,000
Paint and Varnish	280,000
Salary to employees	148,000
Supervisor Charges	35,000
Electricity	8,500
Machine repairs	6,500
Nails and sundries	12,000
Machine depreciation calculated for this order	8,000
Closing inventory (wood) as at 31.07.2018	45,000

You are required to calculate;

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

(Total Marks 30)

Question No (04)

I. What is a budget? Mention five advantages from a budget for a business organization. **(10 Marks)**

II. A toilet soap manufacturer produces a toilet soap at a selling price of Rs.50/- for each unit. Costs of the production are as follows.

	Cost Value (Rs.)
Direct material per unit	15/-
Direct Labour	10/-
Direct other	05/-
Fixed Cost of the Production	3,000,000/-
Forecasted Sales in Units 225,000	

(a) Calculate the Contribution per Unit **(03 Marks)**

(b) Calculate the Contribution to Sales (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 **(04 Marks)**

(e) If selling price of the toilet soap goes up by Rs. 5/-, what is the new Break Even Point in units? **(03 Marks)**

(f) Assume that the manufacturer needs to achieve a target profit of Rs.1,000,000/- 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 (e)? **(04 Marks)**

(Total Marks 30)

Question No (05)

Write short notes for the following.

I. Accounting Equation
II. Double Column Cash Book
III. Sales Invoice
IV. Trial Balance
V. Purchase Journal
VI. Suspense Account

(05 Marks for each)
(05*06 = 30 Marks)

(Total Marks 100)

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