



THE OPEN UNIVERSITY OF SRI LANKA  
COMMONWEALTH EXECUTIVE MASTER OF BUSINESS/ PUBLIC  
ADMINISTRATION  
FINAL EXAMINATION  
MCP 1609/MSP9409- ACCOUNTING AND FINANCE  
DURATION - 03 HOURS

Date : 29.12.2018

Time : 09.30am to 12.30pm

*Instructions: Answer ALL five (05) questions.*

*Numbering of the answers in your answer script should follow the numbers assigned to the questions in the paper.*

*Illegible hand writing is liable to loose marks.*

*Use of non-programmable calculators are allowed.*

**Question No. 01**

Financial statements are a collection of reports, presenting an organization's financial information. They are useful for variety of users for different reasons.

- (a) Explain briefly the objective of financial statements. (03 Marks)
  - (b) Discuss three (03) types of financial information presented in financial statements. (06 Marks)
  - (c) State five (05) components of financial statements and explain the objective of each component. (05 Marks)
  - (d) State four (04) users and their reasons for using financial statements. (06 Marks)
- (Total: 20 Marks)

**Question No. 02**

- (a) Capital expenditure is different from the day-to-day expenses incurred by an organization when conducting its activities, and subject to rigorous appraisal and control.
  - (i) Explain briefly two (02) differences between capital expenditure and day-to-day expenses of an organization with appropriate examples. (04 Marks)
  - (ii) Explain how these two types of expenses are accounted for and disclosed in financial statements. (06 Marks)

- (b) You are the Management Accountant in your company and currently considering a project to purchase a new machinery. The machine will cost Rs 3,800,000/= and will have a useful life of five years. The following are the estimated profits and losses for this project.

Year	Profit/(Loss) (Rs'000)
1	240
2	1040
3	1240
4	840
5	(260)

The depreciation at the rate of 20% per annum on cost of the machine has been deducted when estimating the above profits and losses. The machine will not have any residual value at the end of its useful life. The company uses a cost of capital of 15% to appraise the projects of this type.

**Based on the above information, you are required to;**

- (a) Calculate payback period, accounting rate of return and net present value of the project.  
(06 Marks)

- (b) Discuss why the net present value method is considered to be more appropriate than payback period and accounting rate of return methods when analyzing capital expenditure projects.  
(04 Marks)

**(Total: 20 Marks)**

**Question No. 03**

- (a) Explain briefly the terms “variable cost”, “fixed cost” and “mixed cost”.

**(06 Marks)**

- (b) Sunrise Products PLC carries out a business of producing and distributing products A, B and C. The following cost items have been extracted in relation to the product A.

**Machine Rent;**

The machinery used for production has a capacity of 25,000 units for a month. The monthly rental for the machinery is Rs 200,000/=.

**Labour Cost – Manufacturing Workers;**

The company has employed two permanent workers for operating the machinery and quality inspection of the output for a monthly salary of Rs 45,000/= each. The products are packed by three casual workers for a payment of Rs 40/= per unit.

**Marketing Manager's Salary;**

The monthly salary of the company's Marketing Manager is Rs 85,000/=. When the sales exceed 18,000 units in a month, he is paid a bonus of Rs 50/- for every unit sold in excess of this 18,000 quantity.

**Material Cost;**

2 kilograms of material X is required for producing one unit of product A. The company currently purchases one kilogram of material for a cost of Rs 150/=.

**Using the above information;**

- (i) Discuss the behaviour of each of the cost items given above with graphical illustrations and clearly stating the type of the behaviour observed. (08 Marks)
- (ii) Calculate the variable cost per unit and total fixed cost in a month if 20,000 units are produced and sold during the month. (06 Marks)

**(Total: 20 Marks)**

**Question No. 04**

- (a) The profit measured in financial statements is different from the contribution earned by a business for a particular period. Discuss. (04 Marks)
- (b) The Income Statement of Harison Manufacturing PLC for the year ended 31<sup>st</sup> March, 2018 is as follows:

	Rs	Rs
Sales (20,000 units)		580,000
Less: Direct Material	150,000	
Direct Labour	140,000	
Production overhead	170,000	(460,000)
Gross Profit		120,000
Less: Administrative and selling Expenses		(100,000)
Net Operating Profit		20,000

Note: The production overhead includes a variable production overhead of Rs 3.50 per unit. The company has a capacity of 30,000 units per year.

**Based on the above information, you are required to;**

- (i) Calculate the total variable cost per unit and the contribution per unit. **(04 Marks)**
- (ii) Determine the break-even point and margin of safety in units for the financial year ending 31<sup>st</sup> March, 2018. **(04 Marks)**
- (iii) The Management is not happy with the current financial performance, therefore, has proposed two courses of action for the coming year in the recent management meeting.
 

**Alternative 1:** The Sales Manager believes that unit volume would increase by 30% with the incurrence of additional Rs 60,000 on advertising.

**Alternative 2:** The General Manager suggests that full capacity could be reached if the selling price is cut by 13%.

  - I. Calculate the break-even point and operating profit of the company in the next year after considering each alternative separately.
  - II. Recommend the best course of action for the company based on the calculation in above part (I). **(08 Marks)**

**(Total: 20 Marks)**

**Question No. 05**

Agiya PLC is engaged in buying and selling of garments. The financial statements of the company for the years ending 31<sup>st</sup> March 2017 and 2018 are provided below.

**Statement of Income**

**For the year ended 31st March;**

<i>(In rupees thousands)</i>	<b>2018</b>	<b>2017</b>
Sales	16,652	13,950
Cost of Sales	(7,071)	(6,138)
Gross Profit	9,581	7,812
Interest Received	135	8
Administrative Expenses	(3,978)	(2,813)
Distribution Cost	(1,419)	(1,185)
Other Operating Income	225	0
Operating profit	4,544	3,822
Finance Cost	(300)	(36)
Profit Before Tax	4,244	3,786
Income Tax (30%)	(1,274)	(1,136)
Profit for the period	2,970	2,650

**Statement of Financial Position**

**As at 31st March;**

<i>(In rupees thousands)</i>	<b>2018</b>	<b>2017</b>
<b><u>Non-current Assets</u></b>		
Property, Plant & Equipment	17,388	20,139
Goodwill	2,343	2,343
<b><u>Current Assets</u></b>		
Inventory	5,367	2,586
Trade Debtors	4,260	2,346
Investment in Marketable Securities	75	150
Cash at Bank	576	405
<b>Total Assets</b>	<b>30,009</b>	<b>27,969</b>
<b><u>Equity</u></b>		
Stated Capital	18,000	18,000
Reserves	5,367	2,397
<b><u>Non-current Liabilities</u></b>		
Bank Loan	3,411	405

**Current Liabilities**

Trade Creditors	1,506	4,728
Current portion of Bank Loan	525	420
Income Tax Payable	567	660
Accrued Expenses	633	1359
<b>Total Equity &amp; Liabilities</b>	<b>30,009</b>	<b>27,969</b>

Using the above information, calculate financial ratios and comment on the company's current profitability, liquidity, solvency and assets utilization efficiency.

**(Total: 20 Marks)**

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## PRESENT VALUE TABLE

Present value of \$1, that is  $(1+r)^{-n}$  where  $r$  = interest rate;  $n$  = number of periods until payment or receipt.

Periods (n)	Interest rates (r)									
	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.777	0.751
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239
16	0.853	0.728	0.623	0.534	0.458	0.394	0.339	0.292	0.252	0.218
17	0.844	0.714	0.605	0.513	0.436	0.371	0.317	0.270	0.231	0.198
18	0.836	0.700	0.587	0.494	0.416	0.350	0.296	0.250	0.212	0.180
19	0.828	0.686	0.570	0.475	0.396	0.331	0.277	0.232	0.194	0.164
20	0.820	0.673	0.554	0.456	0.377	0.312	0.258	0.215	0.178	0.149

Periods (n)	Interest rates (r)									
	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833
2	0.812	0.797	0.783	0.769	0.756	0.743	0.731	0.718	0.706	0.694
3	0.731	0.712	0.693	0.675	0.658	0.641	0.624	0.609	0.593	0.579
4	0.659	0.636	0.613	0.592	0.572	0.552	0.534	0.516	0.499	0.482
5	0.593	0.567	0.543	0.519	0.497	0.476	0.456	0.437	0.419	0.402
6	0.535	0.507	0.480	0.456	0.432	0.410	0.390	0.370	0.352	0.335
7	0.482	0.452	0.425	0.400	0.376	0.354	0.333	0.314	0.296	0.279
8	0.434	0.404	0.376	0.351	0.327	0.305	0.285	0.266	0.249	0.233
9	0.391	0.361	0.333	0.308	0.284	0.263	0.243	0.225	0.209	0.194
10	0.352	0.322	0.295	0.270	0.247	0.227	0.208	0.191	0.176	0.162
11	0.317	0.287	0.261	0.237	0.215	0.195	0.178	0.162	0.148	0.135
12	0.286	0.257	0.231	0.208	0.187	0.168	0.152	0.137	0.124	0.112
13	0.258	0.229	0.204	0.182	0.163	0.145	0.130	0.116	0.104	0.093
14	0.232	0.205	0.181	0.160	0.141	0.125	0.111	0.099	0.088	0.078
15	0.209	0.183	0.160	0.140	0.123	0.108	0.095	0.084	0.079	0.065
16	0.188	0.163	0.141	0.123	0.107	0.093	0.081	0.071	0.062	0.054
17	0.170	0.146	0.125	0.108	0.093	0.080	0.069	0.060	0.052	0.045
18	0.153	0.130	0.111	0.095	0.081	0.069	0.059	0.051	0.044	0.038
19	0.138	0.116	0.098	0.083	0.070	0.060	0.051	0.043	0.037	0.031
20	0.124	0.104	0.087	0.073	0.061	0.051	0.043	0.037	0.031	0.026

Cumulative present value of \$1 per annum, Receivable or Payable at the end of each year for  $n$  years  $\frac{1-(1+r)^{-n}}{r}$

Periods (n)	Interest rates (r)									
	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	1.970	1.942	1.913	1.886	1.859	1.833	1.808	1.783	1.759	1.736
3	2.941	2.884	2.829	2.775	2.723	2.673	2.624	2.577	2.531	2.487
4	3.902	3.808	3.717	3.630	3.546	3.465	3.387	3.312	3.240	3.170
5	4.853	4.713	4.580	4.452	4.329	4.212	4.100	3.993	3.890	3.791
6	5.795	5.601	5.417	5.242	5.076	4.917	4.767	4.623	4.486	4.355
7	6.728	6.472	6.230	6.002	5.786	5.582	5.389	5.206	5.033	4.868
8	7.652	7.325	7.020	6.733	6.463	6.210	5.971	5.747	5.535	5.335
9	8.566	8.162	7.786	7.435	7.108	6.802	6.515	6.247	5.995	5.759
10	9.471	8.983	8.530	8.111	7.722	7.360	7.024	6.710	6.418	6.145
11	10.368	9.787	9.253	8.760	8.306	7.887	7.499	7.139	6.805	6.495
12	11.255	10.575	9.954	9.385	8.863	8.384	7.943	7.536	7.161	6.814
13	12.134	11.348	10.635	9.986	9.394	8.853	8.358	7.904	7.487	7.103
14	13.004	12.106	11.296	10.563	9.899	9.295	8.745	8.244	7.786	7.367
15	13.865	12.849	11.938	11.118	10.380	9.712	9.108	8.559	8.061	7.606
16	14.718	13.578	12.561	11.652	10.838	10.106	9.447	8.851	8.313	7.824
17	15.562	14.292	13.166	12.166	11.274	10.477	9.763	9.122	8.544	8.022
18	16.398	14.992	13.754	12.659	11.690	10.828	10.059	9.372	8.756	8.201
19	17.226	15.679	14.324	13.134	12.085	11.158	10.336	9.604	8.950	8.365
20	18.046	16.351	14.878	13.590	12.462	11.470	10.594	9.818	9.129	8.514

Periods (n)	Interest rates (r)									
	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833
2	1.713	1.690	1.668	1.647	1.626	1.605	1.585	1.566	1.547	1.528
3	2.444	2.402	2.361	2.322	2.283	2.246	2.210	2.174	2.140	2.106
4	3.102	3.037	2.974	2.914	2.855	2.798	2.743	2.690	2.639	2.589
5	3.696	3.605	3.517	3.433	3.352	3.274	3.199	3.127	3.058	2.991
6	4.231	4.111	3.998	3.889	3.784	3.685	3.589	3.498	3.410	3.326
7	4.712	4.564	4.423	4.288	4.160	4.039	3.922	3.812	3.706	3.605
8	5.146	4.968	4.799	4.639	4.487	4.344	4.207	4.078	3.954	3.837
9	5.537	5.328	5.132	4.946	4.772	4.607	4.451	4.303	4.163	4.031
10	5.889	5.650	5.426	5.216	5.019	4.833	4.659	4.494	4.339	4.192
11	6.207	5.938	5.687	5.453	5.234	5.029	4.836	4.656	4.486	4.327
12	6.492	6.194	5.918	5.660	5.421	5.197	4.988	4.793	4.611	4.439
13	6.750	6.424	6.122	5.842	5.583	5.342	5.118	4.910	4.715	4.533
14	6.982	6.628	6.302	6.002	5.724	5.468	5.229	5.008	4.802	4.611
15	7.191	6.811	6.462	6.142	5.847	5.575	5.324	5.092	4.876	4.675
16	7.379	6.974	6.604	6.265	5.954	5.668	5.405	5.162	4.938	4.730
17	7.549	7.120	6.729	6.373	6.047	5.749	5.475	5.222	4.990	4.775
18	7.702	7.250	6.840	6.467	6.128	5.818	5.534	5.273	5.033	4.812
19	7.839	7.366	6.938	6.550	6.198	5.877	5.584	5.316	5.070	4.843
20	7.963	7.469	7.025	6.623	6.259	5.929	5.628	5.353	5.101	4.870