

THE OPEN UNIVERSITY OF SRI LANKA
COMMONWEALTH EXECUTIVE MASTER OF BUSINESS/PUBLIC
ADMINISTRATION
FINAL EXAMINATION – 2014 DECEMBER
MCP 1609 – ACCOUNTS AND FINANCE



DATE : 21.12.2014

TIME : 9.30 A.M. – 12.30 P.M.

Key Instructions

- This paper consists of five (05) questions.
- Answer all questions.
- Non Programmable Calculators are allowed.
- Time allowed three (03) hours

Question No.1

- a. The Statement of Comprehensive Income and the Statement of Financial Position of Beta PLC for the year ended 31 March 2014 and also comparative information for prior period are given below.

All figures are given in Rs. '000

| <i>Statement of income</i> | <i>2014</i> <i>Rs. '000</i> | <i>2013</i> <i>Rs. '000</i> |
|--------------------------------|--------------------------------|--------------------------------|
| <i>Sales</i> | 56,000 | 68,000 |
| <i>Cost of sales</i> | (29,000) | (30,000) |
| <i>Gross profit</i> | 27,000 | 38,000 |
| <i>Distribution costs</i> | (9,500) | (8,200) |
| <i>Administrative expenses</i> | (7,300) | (7,800) |
| <i>Finance costs</i> | (3,200) | (1,200) |
| <i>Profit before tax</i> | 7,000 | 20,800 |
| <i>Tax expense</i> | (1,200) | (4,100) |
| <i>Profit for the period</i> | 5,800 | 16,700 |
| <i>Dividend paid</i> | 2,000 | 5,000 |

| <i>Statement of financial position</i> | <i>2014</i> <i>Rs. '000</i> | <i>2013</i> <i>Rs. '000</i> |
|---|--------------------------------|--------------------------------|
| <u>Non-Current assets</u> | | |
| <i>Property Plant and Equipment</i> | 52,000 | 35,000 |
| <u>Current Assets</u> | | |
| <i>Inventory</i> | 8,800 | 4,600 |
| <i>Trade receivables</i> | 2,400 | 3,800 |
| <i>Cash at bank</i> | 2,200 | 4,200 |
| <i>Cash in hand</i> | 1,600 | 2,400 |
| <i>Total Assets</i> | 67,000 | 50,000 |
| <u>Equity and Liabilities</u> | | |
| <u>Equity</u> | | |
| <i>Stated capital-(1,000,000 ordinary shares)</i> | 10,000 | 10,000 |
| <i>Retained profit</i> | 31,300 | 27,500 |
| <i>Total equity</i> | 41,300 | 37,500 |
| <u>Non-current liabilities</u> | | |
| <i>18% Debentures</i> | 15,000 | 5,000 |

| <u>Current liabilities</u> | | |
|-------------------------------------|---------------|---------------|
| Trade payables | 8,000 | 5,500 |
| Tax payable | 2,700 | 2,000 |
| Total equity and liabilities | 67,000 | 50,000 |

Required

- a. Calculate the following accounting ratios and comment on the overall profitability, financial position and efficiency of Beta PLC.
- Gross Profit Margin
 - Net Profit Margin
 - Current ratio
 - Quick Asset ratio
 - Debt to Equity ratio
 - Debt to Total Assets ratio
 - Stock Resident
 - Assets Turnover ratio
 - Earnings Per Share (EPS)
 - Dividend Per Share (DPS)
- (12 marks)
- b. State two (02) strategies each to;
- improve the gross margin
 - reduce the stock resident period
- (4 marks)
- c. State two disadvantages of having high inventory resident period (2 marks)
- d. State two (02) advantages and two (02) disadvantages of ratio analysis as a tool of financial statement analysis (2 marks)

(Total 20 Marks)**Question No.2**

- a. Discuss the role of accounting information in the strategic decision making process of an organization. (4 marks)
- b. Explain the followings in brief
- Creative Accounting
 - Sustainability Accounting
 - Financial Statement Audit
- (2x3 6 marks)
- c. Discuss whether human resource can be treated as an asset (2 marks)
- d. What is meant by current assets and none current assets? Explain with suitable examples (4 marks)
- e. State the duties of specified business enterprises (SBEs) with respect to preparation and presentation of financial statements (2 marks)
- f. State the powers vested on Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) over the preparation and fair presentation of financial statements of SBEs (2 marks)

(Total 20 Marks)**Question No.3**

- a. State the advantages of keeping proper personal accounting records for an individual (4 marks)
- b. Following information is relevant to the personal assets and liabilities of Mr. Silva who is employed in the public sector as at 01 January 2014.

| | Rs.'000 |
|--|---------|
| Land in Kandy | 1,500 |
| House in Colombo - | 9,500 |
| Car | 4,800 |
| Housing loan balance | 3,685 |
| Car lease loan balance | 1,647 |
| Furniture | 250 |
| Machinery | 640 |
| Investment in the share market at market value | 1,246 |
| Savings account balance | 68 |
| Cash in hand | 12 |
| Jewelries | 80 |
| Credit card balance | 46 |
| Personal loan obtained from a friend | 50 |

Required

- i. The value of the wealth of Mr. Silva as at 1 January 2014 (3 marks)
 - ii. Advice Mr. Silva three strategies for increasing his wealth (3 marks)
 - iii. Is Mr. Silva a levered person? (1 marks)
 - iv. What are the factors that you would consider when obtaining a bank loan? (3 marks)
 - v. State what are the benefits that Mr. Silva would enjoy by investing in the share market? (3 marks)
- c. "The value of the assets of a person provides a conclusive evidence of his/her financial stability". Do you agree? (3 marks)

(Total 20 Marks)**Question No.4**

The Statement of Financial Position of Alpha PLC as at 01 January 2014 is given below.

| <i>Assets</i> | <i>Rs.'000</i> |
|--|----------------|
| <i>Noncurrent assets</i> | |
| <i>Property Plant and Equipment (PPE)</i> | 8,000 |
| <i>Current assets</i> | |
| <i>Inventory (Stock)</i> | 3,500 |
| <i>Trade Receivables (Debtors)</i> | 2,300 |
| <i>Cash and Bank(Cash)</i> | 1,200 |
| <i>Total assets</i> | 15,000 |
| <i>Equity and liabilities</i> | |
| <i>Equity</i> | 10,000 |
| <i>Noncurrent liabilities</i> | |
| <i>Bank loan (loan)</i> | 3,000 |
| <i>Current liabilities</i> | |
| <i>Trade payables (Creditors)</i> | 2,000 |
| <i>Equity and total liabilities</i> | 15,000 |

Following transactions occurred during the month of January 2014.

1. Goods, which cost the firm Rs.1,600,000, was sold for Rs.3,000,000
2. Purchased a machine Rs.1,500,000
3. Purchased goods on credit Rs.1,600,000
4. Cash paid to creditors Rs.1,000,000 and discount received Rs.50,000

5. Cash received from debtors Rs.1,600,000.
6. Company made a right issue and raised additional share capital of Rs.2,000,000
7. Bank loan was fully settled paying 3,050,000 being the difference is the interest for the period
8. Distribution cost paid Rs.400,000
9. Administrative expenses paid Rs.500,000.
10. Bad debt written off Rs.150,000
11. Depreciation of Property Plant and Equipment (PPE) for the month Rs.100,000.
12. Dividend paid Rs.500,000

Required:

- a. Statement of financial position of Alpha PLC as at 31 January 2014. (6 marks)
- b. Statement of income for the month ended 31 January 2014. (8 marks)
- c. Statement of cash flow for the month ended 31 January 2014. (6 marks)

(Total 20 Marks)

Question No.5

Following information is relevant to Asia Apparel (Pvt) Ltd that engaged in manufacturing and distribution of branded T-shirt for the quarter ended 31 March 2014.

| | Rs. |
|------------------------------------|-----------|
| Cost of fabric consumed | 2,500,000 |
| Machine operators salary | 1,500,000 |
| Production manager's salary | 600,000 |
| Production supervisor's salary | 300,000 |
| Factory rent | 300,000 |
| Marketing expenses | 850,000 |
| Depreciation of factory machines | 450,000 |
| Factory electricity other expenses | 350,000 |
| Administration cost | 600,000 |
| Finance cost | 250,000 |

Other information is as follows

| | |
|-----------------------------|--------|
| Number of T-shirts produced | 10,000 |
| Number of T-shirts sold | 8,000 |

It is the company's policy to keep a gross margin of 50% on cost.

Required:

- a. Classify the above costs as direct, manufacturing overhead and non manufacturing overhead costs. (4 marks)
- b. Prime cost and the total production cost for the period. (4 marks)
- c. Cost and the selling price per T-shirt. (4 marks)
- d. Value of the closing stock (4 marks)
- e. Income Statement for the quarter ended 31 March 2014 (4 marks)

(Total 20 Marks)