



UNIVERSITY OF RUHUNA

Faculty of Engineering

End-Semester 5 Examination in Engineering: August 2015

Module Number: IS 5311 Module Name: Financial Management

[Three hours]

[Answer all questions]

Question 01

- a. 'Different people use accounting information for different purposes'.

Do you agree with the above statement? Briefly explain.

(04 Marks)

- b. Mr. Gajendra has started a sole proprietorship business of selling grocery products. Following trial balance has been extracted from his books as at 31st March 2015.

Description	Debit	Credit
Capital as at 01 st April 2014		1,600,000
Bank Loan at 12% Interest Rate		750,000
Property, Plant and Equipment at Cost		
Building	750,000	
Office Equipments	200,000	
Motor Vehicle	1,400,000	
Furniture and Fittings	250,000	
Accumulated Depreciation - As at 01 st April 2014		
Building		112,500

Office Equipments		60,000
Motor Vehicle		560,000
Furniture and Fittings		50,000
Inventories as at 01 st April 2014	260,000	
Trade Debtors	265,000	
Trade Creditors		290,000
Cash in Bank		248,000
Cash in Hand	33,200	
Discounts Allowed	7,200	
Discounts Received		9,500
Investment at 15% Interest Rate	600,000	
Salaries	275,000	
Bank Loan Interest	45,000	
Sales Returns	4,200	
Electricity Charges	12,000	
Insurance	28,000	
Purchases	780,000	
Sales		1240,000
Water Charges	3,400	
Telephone Expenses	4,500	
Advertising Expenses	36,000	
Distribution Expenses	8,500	
Sales commissions	18,000	
Investment Income		60,000
	4,980,000	4,980,000

The following information is also available for your consideration

- I. The value of inventories as at 31st March 2015 was Rs. 345,000.

- II. Stocks valued Rs. 36,000 was stolen by an employee. No entries have been made in the books of accounts in respect of this event.
- III. Stocks valued Rs. 18,000 was taken by Mr. Gajendra for his personal use.
- IV. Rs. 18,000 due from a customer became irrecoverable as at 31st March 2015, and is to be written off as bad debts.
- V. Property, Plant and Equipment should be depreciated on straight-line method using following rates on their costs.

Building	5%
Office Equipments	10%
Motor Vehicle	20%
Furniture and Fittings	20%

- VI. Prepayment and accruals as at 31st March 2014 were as follows,

	Prepayments (Rs.)	Accruals (Rs.)
Electricity	-	4,500
Insurance	3,500	-

- VII. One-third (1/3) of advertising cost is relevant for the next financial year.

Required

Prepare the following financial statements,

Income Statement for the year ended 31st March 2015.

Statement of Financial Position as at 31st March 2015.

(20 Marks)

(Total Marks 24)

Question 02

On 1st January 2015, Jayabima Stores' cash book showed a debit balance of Rs. 248,000. Transaction occurred during January 2015 are given below.

- January 01 Opened a bank current account at Sampath Bank by depositing Rs. 150,000.
- January 03 Purchased office equipments for Rs. 60,000 and paid cash.
- January 05 Received a cheque from Mr. M.N. Nismi for Rs. 23,500 in full settlement of his account and allowed him a discount of Rs. 1,500.
- January 08 Purchased an office computer from Abans Ltd. for Rs. 85,000.
- January 10 Deposited the cheque received from Mr. M.N. Nismi in the bank.
- January 13 Issued a cheque valued Rs. 18,500 to Mrs. Dayanthi and received Rs. 1,500 discount.
- January 15 Withdrew Rs. 25,000 from the bank current account for the business use.
- January 18 Received a cheque from Mr. Senevirathna for Rs. 25,000 in part payment of her outstanding balance.
- January 20 Sold stocks valued Rs. 80,000 for Rs. 120,000 on cash.
- January 23 Purchase merchandise for Rs. 85,000 from Ms. Sudarshi.
- January 26 Received a cheque valued Rs. 23,000 from Mr. Subhash to settle his Rs. 25,000 outstanding balance.
- January 28 Paid Rs. 4,500 in cash for monthly telephone bill.
- January 29 Issued a cheque valued Rs. 18,000 to settle monthly building rent.
- January 31 Deposited the cheque received from Mr. Senevirathna in the bank.

Required

Prepare the triple-column cashbook for the month ended 31th January 2015.

(Total Marks 10)

Question 03

- a. Briefly explain the behavior of fixed costs, variable costs and total costs using graphical illustrations. (03 Marks)

- b. Beta (Pvt) Ltd. manufactures and sells the product "Beta" for the local market. The following information is available for the next month.

Selling price per unit (Rs.)	1,000
Variable costs per unit (Rs.)	600
Budgeted fixed costs for next year (Rs.)	2,500,000
Current production capacity in units	8,000

With the purpose of reducing the costs, company is considering following two options,

Option 01

Introduce a new machine to the manufacturing process, which reduce the unit variable cost by Rs. 60 through reducing direct labour costs. Due to introduction of the new machine, fixed costs of the division increase by Rs. 260,000 per month.

Option 02

Introduce new imported materials for the production, which reduces the variable cost by Rs. 30 per unit.

Assume you are the management accountant of the company.

Required

- Calculate the brake-even units at present capacity.
- Calculate the monthly operational profit at present level of operation (before implementing the cost saving options).
- what would be quantity that should be sold to achieve target profit Rs. 1,200,000 (before implementing the cost saving options)?
- Calculate the possible cost savings from option 1 and 2 separately.
- Calculate the expected profit by implementing both proposal 1 and 2 together.

(10 Marks)
(Total Marks 13)

Question 04

a. Mr. Thilakarathne retired from government service and received Rs. 500,000 gratuity payment. He expects to deposit this amount in a senior citizen account at 15% rate of interest for five years. Calculate the total amount that he will receive at the end of five years. (03 Marks)

b. Gajaba (Pvt) Ltd currently maintain its warehouse in a rented building. The annual rent of the building is Rs. 5,000,000. Company is considering building a warehouse for the next five years. Following information is available to you.

Cost of building the warehouse is Rs. 2,500,000 payable immediately. At the end of five years, equipments can be sold for Rs. 500,000.

Annual maintenance cost of Rs. 1,000,000 will be incurred for the warehouse.

Company's cost of capital is 15%.

Year	01	02	03	04	05
Discounting Factor	0.869	0.756	0.657	0.571	0.497

Assume you are the management accountant of the company.

Required

Advice the company on above option using Net Present Value (NPV) method based on the above information.

(07 Marks)

c. Explain advantages of using NPV as a criterion in project evaluation compared to payback period method.

(03 Marks)

(Total Marks 13)
