



**UNIVERSITY OF COLOMBO, SRI LANKA**

**UNIVERSITY OF COLOMBO SCHOOL OF COMPUTING**

**DEGREE OF BACHELOR OF INFORMATION TECHNOLOGY (EXTERNAL)**

**Academic Year 2012/2013 – 2<sup>nd</sup> Year Examination – Semester 3**

***IT3404: Business Management***  
***PART 2 - Structured Question Paper***

***03<sup>rd</sup> March, 2013***  
***(ONE HOUR)***

**To be completed by the candidate**

BIT Examination Index No: \_\_\_\_\_

**Important Instructions:**

- The duration of the paper is **1 (one) hour**.
- The medium of instructions and questions is English.
- This paper has **2 questions** and **07 pages**.
- **Answer Both questions.** Both questions carry equal marks.
- **Write your answers** in English using the space provided **in this question paper**.
- Do not tear off any part of this answer book.
- Under no circumstances may this book, used or unused, be removed from the examination hall by a candidate.
- Note that questions appear on both sides of the paper.  
If a page is not printed, please inform the supervisor immediately.

**Questions Answered**

Indicate by a cross (×), (e.g. 

×
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) the numbers of the questions answered.

	Question numbers		
	1	2	
<b>To be completed by the candidate by marking a cross (×).</b>			
To be completed by the examiners:			

Based on the following case study, answer the following parts of question 1.

### **Case Study**

ABC is a very large Bank having many branches throughout Sri Lanka. Its financial performance and market performance have been increasing considerably for the last five years. The Bank introduced a progressive salary and benefits plan to motivate its loan officers to improve their job performance. Also it introduced a standardized policy for approving customer loan requests and a constant checking of officers' work by their supervisors. Consequently the loan officers seemed uninterested in their work.

Ranga and Suranga are two accountants working in the Finance Department of the Bank and with the same qualifications and hours of work. Also both persons' job performances are similar and both work hard. Ranga's monthly pay is Rs. 78,000/- but Suranga's monthly pay is Rs. 88,000/-. Ranga feels angry knowing that he is paid less than an equally qualified person who does the same work. Suranga feels guilty knowing that he is paid more than an equally qualified person who does the same work.

Anuradha enjoys her work as a Human Resource Officer and likes the salary she receives for her work. She worked hard and produced an excellent performance. However, within this year her job performance started declining. Her superior thought that she has no motivation due to a lack of promotion to a supervisory position. However, she has no desire to assume a supervisory position.

Perera is a manger working in the office of the Kandy branch of the Bank and finds that the photo copy machine is broken down. Perera wants to have some very important papers copied and says to a subordinate "I will give you Rs. 2,000 to get the machine working within 30 minutes." The subordinate needs some extra money to go on a trip with his wife at the end of this week. He has the experience of doing this type of repair work successfully though he is not a qualified machinist.

Gawri is a human resource executive (research and development) who worked hard to complete a comprehensive job satisfaction survey on time. She was directly rewarded with recognition by her superior. The executive determined that she would repeat that hard level of effort when a new human resource project is assigned.

(1)

- (a) In the case of loan officers, are they motivated? Why? How does one solve the problem? What is the most appropriate theory of motivation that can be used to describe and explain the behaviour of loan officers?

(10 marks)

**ANSWER IN THIS BOX**

No. Loan officers are not motivated.

Why? They got a feeling that the new policy reduced the importance of their independent judgment. Also it reduced their status to that of loan clerk. The officers were unhappy about the constant checking of their work by their supervisors.

It is possible to solve the problem by increasing the loan officers' responsibilities (responsibility) and allowing them to use greater independence in judgment in approving loans (recognition).

The most appropriate theory is Herzber's Two-Factor Theory.

- (b) In case of Ranga and Suranga, is there an equitable payment? Why? Using the Equity Theory, describe and explain how Ranga can change.

(15 marks)

**ANSWER IN THIS BOX**

There is no equitable payment.

It is because Ranga's ratio of his outcomes/inputs is lower than Suranga's. When one person's outcomes/inputs ratio is equivalent to another person's outcomes/inputs ratio under comparison, a state of **equitable payment** exists. In fact it creates a state of underpayment equity for Ranga and a state of overpayment for Suranga. Both feel inequity in general. **Underpayment** occurs when one person's outcomes/inputs ratio is less than another person's outcomes/inputs ratio under comparison. **Overpayment** occurs when one person's outcomes/inputs ratio is higher than another person's outcomes/inputs ratio under comparison.

There are two types of reactions to inequity, i.e. behavioural way and psychological way **Behavioural way** is changing what the person can do. **Psychological way** is changing what the person can think.

In general people who are underpaid may either increase their outcomes or decrease their inputs. In specific terms, an underpaid person (here Ranga) might increase his outcomes by asking for and receiving a pay raise or taking home (stealing) property of the organization, such as office supplies, tools or some units of production. In specific terms, Ranga might decrease his inputs by spending less time at work, putting forth less effort, leaving early, lowering quality of work, coming to work late or in an extreme situations, resigning from the job.

- (c) In case of Anuradha, is there a difference between the supervisor and the subordinate with regard to valence? How? With what more likely would she be motivated to higher level of job performance? What is the relevant theory to explain the behaviour of both persons?

(07 marks)

**ANSWER IN THIS BOX**

Yes. There is a difference between the supervisor and the subordinate with regard to valence. Anuradha has a high valence for pay but a low valence for promotion. Her superior thought that she has a high valence for a promotion to a supervisory position.

It is more likely that she would be motivated to a higher level of job performance by a large salary increment.

Victor Vroom's Expectancy Theory

- (d) In case of Perera, will he be able to get the work of copying some very important papers through the subordinate? Why?

(10 marks)

**ANSWER IN THIS BOX**

He will be able to get the work done through the subordinate. The subordinate has a high valence for Rs. 2000/- as he needs some extra money for his week-end trip with his wife. It is more likely that he has the capability of doing the repair work because he has the experience of doing such work successfully. Hence there is expectancy. It is more likely that he will be motivated to do what is required by his boss.

According to the expectancy theory; valence, instrumentality and expectancy must be present for motivation to occur. The subordinate has the three elements. The theory claims that motivation is a **multiplicative function** of all three components. It means that higher levels of motivation will result when valence, instrumentality and expectancy are all high. If any one of the three components is zero, the overall level of motivation will become zero.

- (e) In case of Gawri, explain her behaviour by using an appropriate theory of motivation.

(08 marks)

**ANSWER IN THIS BOX**

Here the relevant theory is **Reinforcement Theory** which is a process theory of motivation. It is an approach emphasizing the application of rewards by the manager to motivate subordinates. In simple reinforcement is strengthening or confirming of an expected behaviour. Sometimes referred to as operant conditioning, reinforcement theory has its foundations in the work of B.F. Skinner. There is reinforcement as Gawri's effort becomes confirmed or strengthened by the recognition making it repeated.

(2)

- (a) State why adjusting entries are necessary in accounting.

(06 marks)

**ANSWER IN THIS BOX**

The provision of useful financial information is the purpose of accounting. Information is most useful when it is accurate and up to date. Adjustment entries are needed to record events that have not been noted (documented) and recorded in the usual way. In other words, adjusting entries update and correct information shown in the accounts.

- (b) Prepare adjusting entries, at October 31, 2012 for the following items.

*Adjustment Data*

- i. Service revenues in the amount of Rs. 800,000 were earned during the last few days of October, but have not yet been billed to customers (and therefore have not been recorded).
- ii. Interest of Rs. 40,000 accrued during October on a loan payable to the bank
- iii. Of the Service Revenue account, credits of the Rs. 50,000 during October, represent advances from customers for services to be rendered during November.
- iv. On October 1, Rs. 30,000 in rental charges was paid for building space during October, November, and December. The entire amount was debited to Rent Expense at the time of payment.
- v. Of Rs. 17,000 credited to an Unearned Service Revenue account during September, Rs. 8,000 was earned during October.
- vi. A business automobile was purchased on October 1 for Rs. 6,000,000. It has an expected useful life to the business of 48 months, after which it can be sold for 1,200,000. (Record the depreciation expense for October.)

(24 marks)

**ANSWER IN THIS BOX**

Date	Account Names and Explanations	A/C	Debit Rs.	Credit Rs.
	<b>ADJUSTING JOURNAL ENTRIES</b>			
2012 Oct.31	i. Accounts Receivable Service Revenue (To recognize unbilled revenue at October 31)		800,000	800,000
Oct.31	ii. Interest Expense Interest Payable (To record accrued interest on loan payable to the bank)		40,000	40,000
Oct.31	iii. Service Revenue Unearned Service Revenue (To defer customer advances for services to be performed in November)		50,000	50,000
Oct.31	iv. Prepaid Rent Rent Expense (To defer November and December rent paid in October)		20,000	20,000
Oct.31	v. Unearned Service Revenue Service Revenue (To recognize revenue earned during October)		8,000	8,000
Oct.31	vi. Depreciation Expense-Automobile Accum.Depr.-Automobile (To recognize automobile depreciation for October)		100,000	100,000

(c)

- i. List the four functions of accounting for transactions in the order in which they are normally performed.

**(04 marks)****ANSWER IN THIS BOX**

1. Documenting
2. Recording
3. Summarizing
4. Reporting

- ii. Define the following four devices and relate each to the accounting function it supports.

- a. Source documents
- b. Journal
- c. Ledger
- d. Accounting Statement

**(08 marks)****ANSWER IN THIS BOX**

Source documents are business formats which serve as notations of transactions.

Journal is a place of original entry for listing transactions in a formal manner (usually in chronological order).

Ledger is a group of accounts.

Accounting Statement is a formal presentation of accounting data.

The documenting function is accomplished with source documents; recoding is done in journals; data are summarized in ledgers; and reporting is met through statements.

- iii. What is the Accounting Equation? (Express it as an accounting equation). Write the accounting equation that is mathematically correct but conceptually misleading. Why is it misleading?

(08 marks)

**ANSWER IN THIS BOX**

Accounting equation is an expression of the equality of an entity's assets with the claims against them. It is expressed as:

$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$

or

$\text{Assets} - \text{Liabilities} = \text{Owner's Equity}$

The accounting equation that is mathematically correct but conceptually misleading is:

$\text{Assets} - \text{Owner's Equity} = \text{Liabilities}$

This equation is conceptually misleading because owner's equity is the residual. Liability holders have a legal claim on assets; an owner has what is left after these claims are met.

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