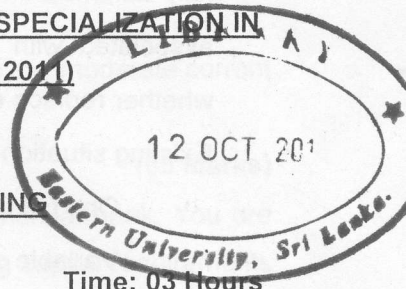


**EASTERN UNIVERSITY, SRI LANKA**  
**FACULTY OF COMMERCE AND MANAGEMENT**  
**THIRD YEAR - FIRST SEMESTER EXAMINATION IN COMMERCE (SPECIALIZATION IN**  
**ACCOUNTING AND FINANCE) 2009/ 2010 (AUGUST 2011)**  
**(PROPER)**

**DAF 3034 ADVANCED MANAGEMENT ACCOUNTING**



Answer all questions

Time: 03 Hours

Calculator is permitted

01. i. Why are accountants concerned about product life cycles?

(4 Marks)

- ii. A poor ethical environment results in costs to the company. Examples include the cost of internal theft and the cost of absenteeism. On the other hand, a good ethical environment creates benefits. Examples include reduced risk of legal fines and sanctions and improved employee morals and productivity.

List several additional costs of a poor ethical environment and benefits of a good ethical environment.

(6 Marks)

- iii. Nike is an Oregon-based company that focuses on the design, development, and worldwide marketing of high quality sports footwear, apparel, equipment and accessory products. Nike is the largest seller of the athletic footwear and athletic apparel in the world. The company sells its products to approximately 18,000 retail accounts in the United States and through a mix of independent distributors, licensees and subsidiaries in approximately 140 countries around the world. Independent contractors manufacture virtually all of the company's products. Nike produces most footwear products outside the United States, while it produces apparel products both in United States and abroad.

- a. Identify one decision that Nike managers make in each of the six value-chain functions.
- b. For each decision in requirement (a), identify one piece of accounting information that would aid manager's decision.

(10 Marks)

(Total 20 Marks)

- 02 i. XYZ Ltd. is considering replacing a hand-operated weaving machine with a new fully automated machine. Given the information below, determine the cash flows associated with the proposal, the project net present value and then decide whether replace existing machine or not.

Existing situation:

One full time operator's salary	Rs.18,000
Variable overtime	Rs.1,500
Fringe benefits	Rs.1,500
Cost of defects	Rs.9,000
Original price of hand-operated machine	Rs.30,000
Expected life	30 years
Expected salvage value	Nil
Age	15 years
Depreciation Method	Straight line
Current salvage value of old machine	Rs.18,000
Maximum tax rate	48%
Required rate of return	15%

Proposed situation

Fully automated operation: No operator is necessary	
Cost of machine	Rs.90,000
Shipping fee	Rs.1,500
Installation costs	Rs.7,500
Expected economic life	15 years
Depreciation method	Straight line
Salvage value after 15 years	Nil
Annual maintenance	Rs.1,500
Cost of defects	Rs.1,500

(Total 20 Marks)

03. i. Do you recommend that a firm should finance its current assets entirely with short term financing? Explain your answer.

(05 Marks)

ii. Financial manager should determine the optimum level of current assets so that the wealth of shareholders is maximized. A firm needs non current assets and current assets to support a particular level of output.

In this context, briefly explain conservative current assets policy, moderate current assets policy and aggressive current assets policy.

**(05 Marks)**

iii. A firm has applied for working capital finance from a commercial bank. You are requested by the bank to prepare an estimate of the working capital requirements of the firm. You may add 10 percent to your estimated figure to account for exigencies. The following is the firm's projected profit and loss account:

	Rs.
Sales	2,247,000
Cost of goods sold	1,637,100
Gross profit	609,900
Administrative expenses	149,800
Selling expenses	139,100
Profit before tax	321,000
Tax provision	107,000
Profit after tax	214,000

The cost of goods sold is calculated as follows:

	Rs.
Material used	898,800
Wages and other manufacturing expenses	668,750
Depreciation	251,450
	1,819,000
Less: Stock of finished goods (10% product not yet sold)	181,900
Cost of goods sold	1,637,100

The figures given above relate only to the goods that have been finished, and not to work in progress; goods equal to 15 percent of the year's production (in term of physical units) are in progress on an average requiring full material but only 40 percent of other expenses. The firm has a policy of keeping two months consumption of material in stock.

All expenses are paid one month in arrear. Suppliers of material grant one and a half months credit; sales are 20 percent cash while remaining sold on two months credit. 70 percent of the income has to be paid in advance in quarterly installments.

(10 Marks)

(Total 20 Marks)

04. i. PQR Ltd. produces floor polishers at plants in three locations. The products are sent to three retail outlets. The plant capacities and the demand at the retail outlets for the next month are as follows:

Plant	Production capacity
P <sub>1</sub>	500
P <sub>2</sub>	400
P <sub>3</sub>	300

Retail outlet	Forecasted demand
R <sub>1</sub>	450
R <sub>2</sub>	150
R <sub>3</sub>	300

The production cost at each plant is different, and the sales prices at the retail outlets vary. Taking production costs, sales prices and transportation costs into account, the profit for producing one unit at plant *i*, sending it to retail outlet *j* and selling it at *j* are shown in following Table.

		Retail outlet		
		R <sub>1</sub>	R <sub>2</sub>	R <sub>3</sub>
Plant	P <sub>1</sub>	20	80	100
	P <sub>2</sub>	60	110	60
	P <sub>3</sub>	120	70	90

Find the production and distribution plan that maximizes profit and find the maximum profit.

(14 Marks)

- ii. To stimulate interest and provide an atmosphere for intellectual discussion, an Accounting and Finance department in a Faculty of Commerce and Management decides to hold special seminars on four contemporary topics – leasing, portfolio management, private mutual funds, swaps and options. Such seminars should be held once per week in the afternoons. However, scheduling these seminars (one for each topic and not more than one seminar per afternoon) has to be done carefully so that the number of students unable to attend is kept to a minimum. A careful study indicates that the number of students who cannot attend a particular seminar on a specific day is as follows:

	Leasing	portfolio management	private mutual funds	swaps and options
Monday	50	40	60	20
Tuesday	40	30	40	30
Wednesday	60	20	30	20
Thursday	30	30	20	30
Friday	10	20	10	30

**Required:**

Find an optimal schedule of the seminars (Assignment). Also find out the total number of students who will be missing at least one seminar.

(06 Marks)

(Total 20 Marks)

05. i. What is a Management Control System?

(03 Marks)

ii. What is a balance scorecard and why are more and more companies using one?

(05 Marks)

iii. Use Simplex Method to solve the following Linear Programming problem.

$$\text{Minimize } Z = 8x_1 + 4x_2$$

Subject to constraints:

$$3x_1 + x_2 \geq 27$$

$$x_1 + x_2 = 21$$

$$x_1 + 2x_2 \leq 40$$

$$x_1, x_2 \geq 0$$

(12 Marks)

(Total 20 Marks)