EASTERN UNIVERSITY, SRI LANKA

FACULTY OF COMMERCE AND MANAGEMENT

THIRD YEAR SECOND SEMESTER EXAMINATION IN BUSINESS ADMINISTRATION

(FEBRUARY 2011)

(SPECIAL REPEAT EXAMINATION)

DAF 3123 – MANAGEMENT ACCOUNTING

Answer all questions **Time: 03 Hours**

Calculator is permitted

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1. i. How does Management Accounting differ from Financial Accounting?

(05 Marks)

ii. A company is considering a capital investment proposal where two alternatives, involving differing degrees of mechanization, are being considered. Both investments would have a five-year life. In option 1, new machinery would cost Rs.278,000 and in option 2 Rs.805,000. Anticipated scrap values after 5 years are Rs.28,000 and Rs.150,000 respectively. Depreciation is provided on a straight line basis. Option 1 would generate annual cash inflows of Rs.100,000 and option 2, Rs.250,000.

Required:
Calculate the Accounting Rate of Return, based on average book value.

(06 Marks)

iii. JK company has to select one of the following 2 projects.
Machine A cost Rs.100,000 payable immediately. Machine B cost Rs.120,000, ½ payable immediately and ½ payable one year time. The expected cash inflows are as follow.

Year (at the end)	A	B
1	20,000	-
2	60,000	60,000
3	40,000	60,000
4	30,000	80,000
5	20,000	-

With 7% interest which machine should be selected?

(06 Marks)

iv. Ram is currently considering an investment that gives a positive net present value of Rs.3664 at 15%. At a discount rate of 20% it has a negative net present value of Rs.21,451. What is the internal rate of return of return of this investment?

(03 Marks)

(Total 20 Marks)

2. i. Write short notes on 'Working Capital Cycle'.

(05 Marks)

ii. The following information is obtained from a project. Estimate the net working capital required for the project. Add 10% to your computed figure to allow for contingencies.

Estimated cost per unit of production:

Raw material	Rs. 80
Direct labor	Rs. 30
Overheads (including depreciation, Rs.5)	Rs. 65
	Rs.175

Additional information:

i. Selling price Rs 200 per unit

ii. Level of activity, 104,000 units of production per annum.

iii. Raw material in stock, average 4 weeks

iv. Work in progress (assume full unit of raw material required in the beginning of manufacturing, other conversion costs are 50%), average 2 weeks

v. Finished goods in stock, average 4 weeks

vi. Credit allowed by suppliers, average 4 weeks

vii. Credit allowed to debtors, average 8 weeks

viii. Lag in payment of wages, average 1.5 weeks

ix. Cash in bank (desired to be maintained), Rs.25,000

You may assume that the production is carried on evenly throughout the year (52 weeks) and wages or overheads accrue similarly. All sales are on credit basis only.

(15 Marks)

(Total 20 Marks)

3. i. Your are required to calculate the break even point in the following case:

The fixed cost for the year is Rs.80,000, variable cost per unit for the single product being made is Rs.4.

Estimated sales for the period are valued at Rs.200,000. The number of units involved coincides with the expected volume of output. Each unit sells at Rs.20.

Calculate break even point in rupees and units.

(08 Marks)

ii. A summary of the budgeted income statement of Rockland plc follows:

	Rs.
Net revenue	800,000
Less expenses, including Rs.400,000 of fixed expenses	880,000
Net loss	(80,000)

The manager believes that an additional outlay of Rs.200,000 for advertising will increase sales substantially.

Required

a. At what sales volume will the store break even after spending Rs.200,000 on advertising?

b. What sales volume will result in a net profit of Rs.40,000 after spending the Rs.200,000 on advertising?

(12 Marks)

(Total 20 Marks)

4. Questions i, ii and iii are Multiple Choice Question (MCQ).

i. A master budget comprises

A. the budgeted income statement

B. the budgeted cash flow, budgeted income statement and budgeted balance sheet

C. the budgeted cash flow

D. the entire set of budgets prepared

(02 Marks)

ii. Which of the following tasks would usually be carried out first in the budgetary planning process?

A. Identify the principal budget factor

B. Establish the level of sales demand

C. Calculate the predetermined overhead absorption rate

D. Establish the organization's long term objectives

(02 Marks)

iii. If a company has no production resources limitations, in which order would the following budgets be prepared?

1. Material usage budget
2. Sales budget
3. Material purchase budget
4. Finished goods inventory budget
5. Production budget
6. Material inventory budget

A. 5, 4, 1, 6, 3, 2

B. 2, 4, 5, 1, 6, 3

C. 2, 4, 5, 1, 3, 6

D. 2, 5, 4, 1, 6, 3

(02 Marks)

iv. A company expects to have Rs.37,500 cash in hand on 1st April, and requires you to prepare an estimate of cash position during the three months, April, May and June. The following information is supplied to you:

	Sales Rs	*Purchases* Rs	*Wages* Rs	*Factory Expenses* Rs	*Office Expenses* Rs	*Selling Expenses* Rs
February	75,000	45,000	9,000	7,500	6,000	4,500
March	84,000	48,000	9,750	8,250	6,000	4,500
April	90,000	52,500	10,500	9,000	6,000	5,250
May	1,20,000	60,000	13,500	11,250	6,000	6,570
June	1,35,000	60,000	14,250	14,000	7,000	7,000

Other information:

i. Period of credit allowed by suppliers 2 months.

ii. 20% of sales is for cash and period of credit allowed to customers for credit is one month.

iii. Delay in payment of all expenses – 1 month.

iv. Income tax of Rs. 57,500 is due to be paid on June 15th.

v. The company is to pay dividends to shareholders and bonus to workers of Rs. 15,000 and Rs. 22,500 respectively in the month of April.

vi. Plant has been ordered to be received and paid in May. It will cost Rs.1,20,000.

(14 Marks)

(Total 20 Marks)

5. i. Briefly explain about "dividend policy".

(05 Marks)

ii. Assume that the expected dividend (D1) on each share of common stock is Rs.4. Each share of common stock is currently trading at Rs.35 and has an expected growth rate of 8%. What is the yield on common stock?

(05 Marks)

iii. Stock A has an expected growth rate of 14% for the first 3 years and 7% thereafter. Each share of stock just received an annual Rs.4 dividend per share. The appropriate discount rate is 15%. What is the value of the common stock under this scenario?

(10 Marks)

(Total 20 Marks)