EASTERN UNIVERSITY, SRI LANKA

FACULTY OF COMMERCE AND MANAGEMENT

EXTERNAL DEGREE PROGRAMME

PART - II EXAMINATION IN BUSINESS ADMINISTRATION/ COMMERCE 2006/ 2007

(PROPER/ REPEAT)

COM 301 MANAGEMENT ACCOUNTING

Answer all questions **Time : 03 Hours**

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01. (i) Discuss the relationship of "Costing Accounting" with "Management Accounting".

(02 marks)

(ii) Identify and describe the internal sources of finance available for an organization.

(02 marks)

(iii) What is "Capital gearing"? What are the different types of capital gearing? Give examples for each. Discuss the advantages and disadvantages of each type.

(04 marks)

(iv) What are the factors to be considered in making a financing decision for an organisation?

(03 marks)

(v) What is "liquidity".

Maintaining a reasonable liquidity level in an organisation is an important function of the financial manager. Discuss the reasons.

(03 marks)

(vi) Explain the following terms used in accounting with suitable examples :

- Historical cost
- Current cost
- Current purchasing power.

(03 marks)

(vii) Use the following data to calculate :

(a) Prime cost (b) Factory cost

(c) Production cost (d) Cost of sales

(e) Profit

(05 marks)

	Rs.
Direct material cost	10,000/-
Direct labour cost	4,000/-
Direct expenses	500/-
Administrative expenses	1,000/-
Selling expenses	300/-
Sales	20,000/-

Give the assumptions if any made in the calculations.

(viii) The cutlery department of a factory makes knives and forks in dozen pairs (a dozen being the cost unit. Each dozen knives require Rs. 4,800/- of direc materials and 2 direct labour hours while each dozen forks requires Rs.2,200/- c direct materials and 3 hours of direct labour. Direct labour is paid at Rs. 1,000/ per hour and an analysis of the overheads shows that there is a variable overhea cost of Rs. 600/- per direct labour hour. Ascertain the marginal cost per doze units of each product.

(06 marks

(ix) Your marketing manager has made the following estimate of the demand at variou potential prices for a product having a marginal cost of Rs. 2,000/-.

Price Rs	Demand Unit
4,000	1,000
3,800	1,200
3,600	1,500
3,400	2,000
3,200	2,500
3,000	3,200
2,800	4,000
2,600	5,000

Machines can be acquired to make the product, each machine having a capacity (1,400 units and fixed costs of 800,000/-. The company may have as mar machines as it wishes. At what price the product be sold.

(06 marks

(x) Manufacture of a product A takes 20 hours on machine No. 101. It has a sellin price of Rs. 150/- and marginal cost of Rs. 110/-. Component part Y could b made on machine 101 in 4 hours. The marginal cost of component part is Rs. 9 of which the outside supplier is ready to supply at Rs. 15. Should one make or bu component Y, when the machine 101 is working in full capacity.

(06 marks

(Total 40 marks

02. A Company is considering two capital expenditure proposals. Both proposals are fo similar products and both are expected to operate for four years. Only one proposal ca be accepted.

The following information ins available.

	Proposal – I (Rs '000')	Proposal – II (Rs '000')
Initial investment	46,000	46,000
Year – 1	6,500	4,500
Year – 2	3,500	2,500
Year – 3	13,500	4,500
Year – 4	(1,500)	14,500
Estimated scrap value at the end of year 4	4,000	4,000

Depreciation is charged on the straight line basis. The company estimates its cost of capital at 20% per annum.

Years	Discount factor
Year – 1	0.833
Year – 2	0.694
Year – 3	0.579
Year – 4	0.482

(i) Calculate the following for the two projects.

(a) Pay back period.

(b) The net present value.

(ii) Discuss the advantages and disadvantages of the above two appraisal methods and state with reasons, if any, proposals you would recommend.

(20 marks)

03. Cash budgets for months 1, 2 and 3 are given. You are required to prepare, using the information supplied, cash budgets for months 4, 5 and 6 in the format shown.

	Months 1 (Rs)	2 (Rs)	3 (Rs)	4 (Rs)	5 (Rs)	6 (Rs)
Balance b/ f	(12,705)	(10,215)	100			
Receipts :						
Debtors	15,700	16,000	6,000			
Issue of ordinary shares						
Sale of plant						
	2,995	**5,785**	**6,100**			

Payments :			
Creditors for materials	12,000	4,500	4,350
Wages	600	575	595
Overhead	610	610	615
Debenture interest			
Taxation			
Dividends			
Purchase of plant			
Repayment of debentures			
	13,210	5,685	5,560
Balance c/ f	(10,215)	100	540
	2,995	**5,785**	**6,100**

Note : balances in brackets represent bank overdrafts.

Your are given the following information :

(i) Material cost is expected to be 75% of invoiced sales.

(ii) Debtors are given two month's credit.

(iii) Creditors for materials allow the company one month's credit.

(iv) No discounts received or allowed, bad debts or items settled by contra expected.

(v) Three quarters of wages earned each month are paid in that month and remaining quarter in the following month.

(vi) Overhead expenses are paid, half in the month in which they are incurred and in the following month.

(vii) Items other than above are dealt with completely in the month shown in the ta of data below.

(viii) Other relevant information is :

	Months					
	1	2	3	4	5	6
	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs
Invoiced sales	6,000	6,200	6,800	7,200	8,400	12,[illegible]
Material stocks :						
Increase					700	
Decrease		300	100			

Wages earned	560	580	600	640	700	960
Overhead incurred	600	620	610	630	630	640
Debenture interest paid						1,000
Taxation paid				10,000		
Dividends paid						500
Plant purchased						1,945
Ordinary shares issued at par						35,000
Plant sold				200		
Debentures repaid						20,000

(20 marks)

04. Extracts from the financial statements of Valarmathy Company is given below.

	31, March 2005 (Rs.)	**31, March 2006 (Rs.)**
Net fixed assets	3,012,000	3,348,000
Temporary investments	200,000	320,000
Stock	1,840,000	2,160,000
Debtors	320,000	400,000
Prepaid expenses	28,000	12,000
Cash	200,000	160,000
Equity share capital	2,000,000	2,000,000
Retained earnings	468,000	768,000
10% Debentures	1,600,000	1,600,000
Current liabilities	640,000	800,000

Statement of profit for the year ended 31, March 2006.

	Rs.
Sales	4,000,000
(-) Cost of goods sold	2,800,000
	1,200,000
(-) Interest charges	160,000
	1,040,000
(-) Taxes @ 50%	520,000
	520,000

Dividend declared on equity shares Rs. 220,000/-

(i) From the above figures appraise the financial position of the company from t points of view of :

(a) Liquidity

(b) Debt Management

(c) Profitability and

(d) Stock Turn over

(16 mark

(ii) Comment on the status of the company based on the above ratios.

(04 mark

(Total 20 mark