EASTERN UNIVERSITY, SRI LANKA

FACULTY OF COMMERCE AND MANAGEMENT

THIRD YEAR FIRST SEMESTER EXAMINATION IN BBA

2005/ 2006 (AUGUST/ SEPTEMBER – 2007)

DAF 3123 MANAGEMENT ACCOUNTING

Answer all questions **Time : 03 Hours**

01. (a) "The subject of Management Accounting is very important and useful for optimum utilization of resources. Explain this statement.

(04 marks)

(b) Zinic Auto Ltd., produces three products "P", "Q" and "R" for which the standard costs and quantities in units are as follows :

Particulars	P	Q	R
Outputs (units)	5,000	15,000	22,500
Direct material per unit (Rs)	100	80	60
Direct wages per unit (Rs)	60	80	100
Labour hours per unit	3	4	5
Machine hours per unit	4	4	7
No. of purchase requisitions	600	900	1,000
No. of set-ups	130	120	150

Product overhead split by department :

	Rs
Department A	550,000
Department B	750,000
	1,300,000

Department "A" is labour intensive while department "B" is machine intensive.

Total labour hours in department A = 55,000

Total machine hours in department B = 150,000

Production overhead split by activity :

	Rs
Receiving/ Inspecting	700,000
Production scheduling/ machine set-up	600,000
	1,300,000

No. of batches received/ inspected 2,500

No. of batches for scheduling & set-up 400

You are required to :

(i) Prepare product cost statement under Traditional Absorption Costing and Activity Based Costing method.

(ii) Compare the result under two methods and give your comments.

(16 marks

02. The balance sheet of Camarown (Pvt) Ltd. as at 31.12.2005 & 31.12.2006 are as follows.

Assets	31.12.2005		31.12.2006	
Fixed Assets				
Machinery	600,000		780,000	
Accumulated depreciation	(270,000)	330,000	(319,500)	460,500
Buildings	335,000		475,000	
Accumulated depreciation	(134,000)	201,000	(181,500)	293,500
Land		375,000		375,000
Investment in Dambro (Pvt) Ltd.		--		450,000
		906,000		**1,579,000**
Current Assets				
Stock	225,000		285,000	
Debtors	498,000		568,000	
Marketable securities	320,000		100,000	
Prepaid Expenses	18,750		12,400	
Cash & Bank	267,550	1,329,300	1,268,700	2,234,100
		2,235,300		**3,813,100**
Liabilities				
Share capital (10/= per share)		980,000		1,110,000
Share premium		75,000		375,000
Reserve & surplus		20,000		1,89,500
Long term liabilities				
Debenture net of discount			900,000	
10% Long term loan	400,000	400,000	400,000	1,300,000
Current liabilities				
Provision for Taxation	250,000		275,000	
Dividend propose	120,000		140,000	
Credit	365,000		395,000	
Accrued expenses	25,300	760,300	28,600	838,600
		2,235,300		**3,813,100**

Additional Information :

1. A machinery acquired for Rs 150,000 and written down to Rs 82,500 by 18 July 2006 was sold at that date for Rs 40,000.

2. The investment at Dambro Ltd. were acquired upon payment of Rs. 300,000 cash and the issue of 5,000 shares of Camarown (Pvt). Ltd. The shares of Camarown (Pvt) Ltd. was selling for Rs 30 per share at the time.

3. The company issued 8,000 shares for Rs 280,000.

4. The cost of marketable security sold was Rs. 220,000.

5. Debenture having a par value of Rs 100 each were issued on March 2006 at Rs. 90.

6. Company tax on the profit for the year 2006 was Rs. 230,000.

7. An interim dividend of Rs. 85,000 was paid on 28.09.2006.

8. The total sales and the cost of goods sold for year 2006 were Rs 2,350,000 and Rs 1,300,000 respectively.

You are required to :

(i) Prepare the cash flow statement of Camarown (Pvt)Ltd. for the year ended 31.12.2006 using the direct method

(ii) List out the operating activities using the indirect method.

(20 marks)

03. (i) Explain the risk – return trade off of current assets financing.

(05 marks)

(ii) Briefly explain the factors which determine the working capital requirements of a firm.

(05 marks)

(iii) Spice Company is desirous to purchase a business and has consulted you, and one point on which you are asked to advice them is the average amount of working capital which will be required in the first year's working.

You are given the following estimates and are instructed to add 10% to your computed figure to allow for contingencies.

	Amount for the year (R...
Average amount backed up for stocks	
Stocks of finished product	15,000
Stocks of stores, material	18,000
Average credit given	
Inland sales 6 weeks credit	422,000
Export sales 1 ½ weeks credit	88,000
Average time lag in payment of wages and other out goings	
Wages 1 ½ weeks	340,000
Stocks, material 1 ½ months	48,000
Rent, royalties 6 months	20,000
Clerical staff ½ month	72,800
Manager ½ month	8,400
Miscellaneous expenses 1 ½ months	52,000
Payment in advance	
Sundry expenses (paid quarterly in advance)	10,000

Set-up your calculations for the average amount of working capital required. **(10 mark...**

04. (a) From the given ratios and other particulars, fill up the trading, Profit and Loss Account and Balance Sheet given below.

Gross profit ratio	25%
Net profit ratio	20%
Sales/ inventory ratio	8
Fixed Assets/ Current Assets	3/4
Fixed Assets/ Total Capital	3/2
Capital/ Outside liabilities	2/5
Fixed Assets	Rs. 1,500,000
Closing Stock	Rs. 200,000

Trading, Profit and Loss Account

	Rs.		Rs.
To cost of goods sold	--	By sales	--
To gross profit	--		
	--		--
To Expenses	--	By Gross profit	--
To Net profit	--		
	--		--

05. A company is considering an investment proposal to install new milling controls. Th project will cost Rs. 50,000. The facility has a life expectancy of 5 years and no salvag value. The company's tax rate is 55% and no investment allowed. The firm uses straigh line depreciation. The estimated cash flows before tax (CFBT) from the propose investment proposal are as follows.

Year	CFBT (Rs.)
1	10,000
2	11,000
3	14,000
4	15,000
5	25,000

Compute the following :

(i) Pay back period

(ii) Average rate of return

(iii) Net present value at 10% discount rate

(iv) Profitability index at 10% discount rate.

(20 marks)