EASTERN UNIVERSITY, SRI LANKA

FACULTY OF COMMERCE AND MANAGEMENT

THIRD YEAR FIRST SEMESTER EXAMINATION IN B.COM

2005/ 2006 (AUGUST/ SEPTEMBER – 2007)

DAF 3124 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 ar Activity Based Costing method.

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

(16 mark

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)	460,50
Buildings	335,000		475,000	
Accumulated depreciation	(134,000)	201,000	(181,500)	293,50
Land		375,000		375,00
Investment in Dambro (Pvt) Ltd.		--		450,00
		906,000		**1,579,00**
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	2,234,10
		2,235,300		**3,813,10**
Liabilities				
Share capital (10/= per share)		980,000		1,110,00
Share premium		75,000		375,0
Reserve & surplus		20,000		1,89,5
Long term liabilities				
Debenture net of discount			900,000	
10% Long term loan	400,000	400,000	400,000	1,300,0
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	838,6
		2,235,300		**3,813,1**

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. was 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 (Rs)
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 marks)

04. (a) Explain the financial ratios which are more appropriate to ;

(i) Potential investors in a company and

(ii) Company's own management

(05 marks)

(b) The following accounting information and financial ratio of Milton (Pvt) Ltd relate to the year ended 31.03.2007.

(i) Accounting information :

Gross profit	15% of sales
Net profit	8% of sales
Raw materials consumed	20% of cost of goods sold
Direct wages	10% of cost of goods sold
Stock of raw materials	3 months' usage
Stock of finished goods	6% of cost of goods sold
Debt collection period	60 days

All sales are on credit.

(ii) Ratios :

Fixed assets to sales	1 : 3
Fixed assets to current assets	13 : 11
Current ratio	2
Long term loan to current liabilities	2 : 1
Capital to reserves & surplus	1 : 4

If the value of fixed assets as at 31.03,2006 amounted to Rs. 2,600,000, prepare a summarized profit and loss account of the company for the year ended 31.03.2007 and balance sheet as at 31.03.2007.

(15 marks)

05. a. A plastic manufacturer has under consideration the proposal of production of high quality plastic glasses. The necessary equipment to manufacture the glasses would cost Rs. 80,000. The production equipment would last 5 years with no salvage value. The glasses can be sold at Rs. 3 each. Regardless of the level of production, the manufacturer will incure cash cost Rs. 25,000 each year if the project is undertaken. The variable costs is estimated at Rs. 2 per glass. The manufacture estimates it will sell about 75,000 glasses per year; the straight line method of depreciation will be used, the ordinary tax rate is 55%.

Should the proposed equipment be purchased? Assume 10% as the cost of capital.

(15 marks)

b. A machine is available for purchase at a cost of Rs. 80,000, is expected it to have a life of 5 years and a scrap value of Rs. Rs. 10,000 at the end of the 5 year period. They expect to earn the following profit (before depreciation).

Year	**profit (before depreciation) (Rs)**
1	20,000
2	40,000
3	30,000
4	15,000
5	5,000

You are required to calculate the Accounting Rate of Return (ARR).

(05 marks)