29 MAY 20[illegible]
Eastern University, S[illegible]

EASTERN UNIVERSITY, SRI LANKA

FACULTY OF COMMERCE AND MANAGEMENT

SPECIAL EXAMINATION FOR FINAL YEAR BACHELOR OF BUSINESS ADMINISTRATION/ BACHELOR OF COMMERCE – 2005/ 2006

COM 3033 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.

(05 marks)

(b) Zinc 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.

(20 marks)

(Total 25 marks)

02. The balance sheet of Camarown (Pvt) Ltd. as at 31.12.2006 & 31.12.2007 are as follows.

Assets	**31.12.2006**		**31.12.2007**	
Fixed Assets				
Machinery	600,000		780,000	
Accumulated depreciation	(270,000)	330.000	(319,500)	460,000
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	2,2234,100
		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 2007 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 2007 at Rs. 90.

6. Company tax on the profit for the year 2007 was Rs. 230,000.

7. An interim dividend of Rs. 85,000 was paid on 28.09.2007.

8. The total sales and the cost of goods sold for year 2007 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 31.12.2007.

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

(Total 25 marks)

03. (i) 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%.

(20 marks)

(ii) 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. 10,000 at the end of the 5 year period. The 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)

(Total 25 marks)

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

(Total 25 marks)