University of Kelaniya - Sri Lanka

Centre for Open and Distance Learning

Bachelor of Business Management (General) Degree
Second Examination (External) – 2007

BMGT 2035 – Accounting for Managers

No. of Questions : Six (06) Time: 03 hours

Answer five (05) Questions only.

Graph papers are provided

(01) (a) " The goal of management accounting is to provide the information for managers needed for planning, controlling and decision making" Comment.

(06 Marks)

(b) Explain the desirable qualities of Management Accounting Information.

(04 Marks)

(c) Describe the differences between Management Accounting and Financial Accounting?

(06 Marks)

(d) Distinguish between fixed cost and variable cost by giving examples.

(04 Marks)

(Total 20 Marks)

(02) (a) "Marginal costing is important for decision making" Explain?

(04 Marks)

(b) LMK company is instant infant food producing company. The price of one packet is Rs.35/- . Currently 6,000 packets are produced per month and it has been estimated as 75% from toal capacity.

A super market chain expects the following order from LMK Company.
Rs.21/- per infant food packet.

Cost information is as follows,

Total Cost	-	Rs.144,000
Total Cost (per packet)	-	Rs.24
Fixed Cost	-	Rs. 24,000

Does LMK company accept the order or not? Give reasons.

(06 Marks)

(c) Lanka Products Company is high quality spices producing company. Following information is about main 4 products of the company.

	Chili	Turmeric	Mustard	Pepper
Sales Price (Rs.)	34	32	28	36
Labour Cost (Rs.)	10	4	6	14
Material (Rs.)	12	18	6	10
Maximum Demand (Packets)	5000	4000	2000	3000

Cost for labour is two rupees and cost for material is one rupee.

I If labour hours are limited to 38,000 hours, what will be the best product mix?

II If materials are limited to 90,000kg, what will be best product mix?

(10 Marks)

(Total 20 Marks)

(03) a) Explain the difference between Net Present Value and Internal Rate of Return.

(05 Marks)

b) Tikiri Biscuit Business is considering to diversify its business activities. One of the suggestions is to produce milk powders.

The economic life of the project is six years and it is needed to purchase a machine which is worth Rs.1,720,000. At the end of the economic life, this machine can be sold for Rs.72,000.

Information related to the project is as follows,

Year	0	1	2	3	4	5	6
Income	-	737	890	1840	2210	1685	1340
Expenses	-	372	472	958	1275	735	780
Working Capital	32	50	78	90	90	35	-

All figures are in thousand rupees.

Annual written down depreciation rate - 20%

Tax rate - 45%

Discount rate - 15%

You are required to calculate

I Net Present Value (NPV)

I Internal Rate of Return (IRR) and

II Your decision on acceptance and rejection of the project.

(15 Marks)

(Total 20 Marks)

(04) (a) Explain the importance of ratio analysis in financial analysis.

(03 Marks)

(b) What are the problems that have to be faced by a company, when there is excess working capital?

(04 Marks)

(c) The followings are the Profit and Loss Accounts and the Balance Sheet for the year 2006 and 2007 of New Products Company.

New Products Company

Balance Sheet December 31st

	2006 (Rs.)	2007 (Rs.)
Liabilities and Capital		
Bank O.D	12,300	8,610
Creditors	103,006	64,427
Payables	5,843	3,797
	121,149	76,834
Capital	228,220	214,019
	349,369	290,853
Assets		
Cash	54,485	16,218
Debtors	33,638	60,495
Inventory	120,725	90,526
Receivables	4,311	2,269
	213,159	169,508
Fixed Assets	136,210	121,345
	349,369	290,853

New Products Company

Summarized Profit and Loss Account

	2006 (Rs.)	2007 (Rs.)
Sales	538,211	458,618
Cost of Sales	318,133	276,174
Gross profit	220,078	182,444
Expenses	199,982	166,029
Net profit	20,096	16,415

Your are required to analyze the financial statements, to assist the management of the company in measuring the efficiency of its operation, including its use of capital.

(13 Marks)

(Total 20 Marks)

(05) (a) Explain Pros and Cons of Budgeting

(04 Marks)

(b) The information needs to prepare the budgets for next year is as follows.

Product	Sales Units	Sales Price (Rs.)	Beginning Inventory	Closing Inventory
P	25,000	18	9,000	11,000
Q	60,000	17	20,000	20,000
R	35,000	22	7,000	7,000
S	30,000	20	10,000	10,000

Raw Materials	Unit	P (per unit)	Q (per unit)	R (per unit)	S (per unit)
A	Liters	2	-	4	2
B	Liters	3	1	2	4
C	Kilo	-	2	-	-
D	Kilo	-	3	-	2
E	Meters	6	-	4	-

Raw Material	Price (Rs.)	Beginning inventory	Closing inventory
A	1.20	23,000 ℓ	24,000 ℓ
B	1.00	21,000 ℓ	24,000 ℓ
C	0.90	12,000 kg	17,000 kg
D	1.80	20,000 kg	18,000 kg
E	1.10	25,000 m	32,000 m

Information on direct hours is as follows,

Product	Hours per Unit	Rate per Hour (Rs.)
P	3	2.00
Q	6	1.70
R	5	2.25
S	4	2.00

Overheads cost is charged as 80 cents per labour hour.

You are required to prepare,

I Sales Budget (Rs)

II Production Budget (Units)

III Direct Material Budget (Units)

IV Direct Material Purchase Budget (Rs.)

V Direct Labour Budget (Rs.)

(16 Marks)

(Total 20 Marks)

(06) a) What are the limitations of cost- volume- profit Analysis.

(04 Marks)

b) What is BEP (Break Even Point) chart? Explain its usage.

(04 Marks)

c) X company produces y product and its capacity is 400,000 units.

Sales price Rs.1.00 (per unit)

Marginal Cost Rs. 0.50 (per unit)

Fixed cost Rs.100,000

By showing the profit which can be earned by producing 300,000 units,

i Draw Break Even Point chart

ii Draw Profit chart

iii Find Break Even Point

iv Show Margin of safety

(12 Marks)

(Total 20 Marks)