University of Kelaniya - Sri Lanka

Centre for Open and Distance Learning

Faculty of Commerce and Management Studies

Bachelor of Business Management (General) Degree

Year II Examination (External) – 2008

BMGT E 2035/ BMGT 23035 – Accounting for Managers

No of questions – 06 **Time: 03 Hours**

Answer any five (5) questions

(01) a) Information is one of the key resources of any business manager. Distinguish between information and data and describe the key elements of information.

(06 marks)

b) "Management Accounting is a branch of Accounting and it has been evolved to away with the limitations of financial accounting and to meet the needs of management." Comment on this statement.

(08 marks)

c) P Ltd uses two types of materials A and B for production of 'X', the final product. The relevant monthly data for the components are given below.

	A	B
Normal usage (in units)	200	150
Minimum usage (in units)	100	100
Maximum usage (in units)	300	250
Re-Order Quantity (in units)	750	900
Re-Order Periods (in months)	2 to 3	3 to 4

Calculate the following for each component.

(i) Re-Order level

(ii) Minimum level of stock

(iii) Maximum level of stock

(06 marks)

(Total 20 marks)

(02) a) What is the key difference between the income statements prepared using variable costing and absorption costing? Which income statement is more useful for internal purposes?

(06 marks)

b) The following data have been extracted from the budgets and standard costs of ABC Limited, a company which manufactures and sells a single product.

	Per unit (Rs.)
Selling Price	45.00
Direct materials cost	10.00
Direct wages cost	4.00
Variable overhead cost	2.50

Fixed production overhead costs are budgeted at Rs. 400,000 per annum. Normal production levels are thought to be 320,000 units per annum.

Budgeted selling and distribution costs are as follows.

Variable	Rs. 1.50 per unit sold
Fixed	Rs. 80,000 per annum.

Budgeted administration costs are Rs. 120,000 per annum.

The following pattern of sales and Production is expected during the first six months of the year.

	January - March	April - June
Sales (units)	60,000	90,000
Production (units)	70,000	100,000

There is no stock on 1 January.

(i) Calculate the unit costs of the product.

(ii) You are required to prepare profit statements for each of the two quarters, using marginal costing and absorption costing.

(14 marks)

(Total 20 marks)

(03) Nilwala sound company manufactures and sells compact disks. The price and cost data are as follows.

	Rs.	Rs.
Selling Price per unit (Package of 2 CD'S)		500
Variable Cost per unit :		
Direct material	200	
Direct labour	100	
Manufacturing Overheads	80	
Selling Expenses	30	
Total variable cost per unit		410
Annual fixed cost		
Manufacturing overheads	993,000	
Selling and Administration expenses	807,000	
Total annual fixed cost		1,800,000
Forecasted annual sales volume. (100,000 packs)		50,000,000

(i) What is Nilwala's Break Even point in units?

(03 marks)

(ii) What is Nilwala's break Even point in sales in Rs.?

(03 marks)

(iii) How many units would Nilwala Sound produce in order to earn 260,000profits?

(04 marks)

(iv) What is margin of safety?

(04 marks)

(v) Management estimates that direct labour costs will increase by 8% next year. How many units will be sold by Nilwala to break-even in next year.

(06 marks)

(Total 20 marks)

(04) a) Managing Director of a firm is surprised that every year his profit is quite different from what he wants or expects to achieve. Someone advises him to install a formal system of budgeting. He employed a cost Accountant to do this for two years. The accountant faithfully made budgets all based on previous year accounts. But the problem remains unsolved. Advise Managing Director & the Accountant as to what steps they should take?

(06 marks)

b) CBD company is attempting to estimate its needs for funds during each of the months covering the third quarter of 2007. Relevant information is given below.

(i) Past and estimated future sales for 2007.

	Rs.		Rs.
April	80,000	July	90,000
May	95,000	August	130,000
June	70,000	September	110,000
		October	140,000

(ii) Rent expense is Rs: 2500 per month.

(iii) A quarterly interest payment on Rs. 100,000 in 7 percent annual interest is to be paid during September, 2007.

(iv) Wages and salaries are estimated as follows.

	Rs.
July	8,000
August	10,000
September	12,000

Payments are made within the month in which the wages are earned.

(v) Sixty percent of sales are for cash, with the remaining 40 percent collected in the month following the sale.

(vi) CBD says 80 percent of the sales price and makes payment in the same month in which the sales occur.

(vii) Company plans to pay Rs. 7500 in cash for a new truck in July.

(viii) CBD's ending cash balance for June 30, 2007 is Rs. 67000 the minimum balance the firm wishes to have in any month is Rs. 35,000

You are required to set up a cash budget for CBD for the quarter ended September 30, 2007.

(14 marks)

(Total 20 marks)

(05) a) Explain any two methods which are generally used for analyzing and evaluating capital expenditure projects stating their respective merits & demerits.

(04 marks)

b) A firm is considering an investment of Rs. 28,000,000 (purchase price) in new equipment to replace old equipment with a book value of Rs. 12,000,000 and a market value of Rs. 20,000,000. If the firm replaces the old equipment with the new equipment, it expects to save Rs. 17,500,000 in operating costs the first year. The amount of these savings will grow at a rate of 12 percent per year for each of the following three years. The old equipment has a remaining life of four years. It is being depreciated by the straight - line method. 33.3% of the original book value of the new equipment will be depreciated in the first year, 39.9% will be depreciated in the second year, 14.8% will be depreciated in the third year, and 12.0% will be depreciated in the final year. The salvage value of both the old equipment and the new equipment requires an immediate increase in net working capital of Rs. 5,000,000 which will not be recovered until the end of the four - year investment. Assume that the purchase and sale of equipment occurs today and all other cash flows occur at the end of their respective years. If the firm's cost of capital is 14 percent and is subject to a 40 percent tax rate.

You have to calculate

(i) The Internal Rate of Return on the investment.

(ii) The Net Percent Value of the investment.

(16 marks)

(Total 20 marks)

(06) a) Samsun Bakery is a new firm specializing in all - natural ingredient Products. In attempting to determine what the financial position of the firm should be, the financial manager obtained the following average ratios for the industry for 2007.

Common equity to total assets	60%
Total asset turnover	3 times
Long - term debt to total capitalization	25%
Current ratio	1.2
Quick ratio	0.75
Average collection period (360 day year)	10 days

Complete the balance sheet for Samsun Bakery assuming 2008 sales (all credit) are Rs : 450,000

Samsun Bakery
Balance Sheet for December 31, 2008

	Rs.		Rs.
Cash		Current debt	
Accounts receivable		Long - term debt	
Inventory		Common equity	
Total current assets			
Fixed assets		Total liabilities & equity	
Total assets			

(10 marks)

b) A company manufactures two products, X and Y. The following information is available regarding the production resources required to produce these products.

	Product X	Product Y
Direct material A	3 Kg	2.5 Kg
Direct material B	4 Kg	5 kg
Direct labour dept. 1	2 hours	1.5 hours
Direct labour dept. 2	3 hours	2 hours

Costs are as follows

Direct material A	Rs. 900	per 100 Kg
Direct material B	Rs. 8	per 1 Kg

Direct labour costs :
Dept : 1 Rs: 157500 for 21,000 hours productive time
Dept : 2 Rs. 126,000 for 18,000 hours productive time

Variable overheads.

Dept. 1 Rs. 35,700
Dept. 2 Rs. 41,400

Overheads are allocated on the basis of direct labour hours.

Calculate the standard cost of production of each product based upon the information.

(10 marks)
(Total 20 marks)