University of Kelaniya – Sri Lanka

External Examinations Branch

Faculty of Commerce and Management

Bachelor of Business Management (General) Degree Second Examination – (External) 2009

October 2010

BMGT E 2035 – Accounting for Managers

No of questions - 07 Time: 03 Hours

Answer any five questions only.

(01) (a) "Even though Cost Accounting is a sub system of management accounting there can be seen clear differences between management accounting and financial accounting" Briefly explain the differences and the similarities of the above mention three fields.

(08 marks)

(b) You have been asked to install a new costing system in a certain manufacturing business. What practical difficulties would you expect to meet and how would you propose to overcome them?

(06 marks)

(c) The following data were relate to a particular stock item.

Normal usage	110 per day
Minimum usage	50 per day
Maximum usage	140 per day
Lead time	25 - 30 days
EOQ	5000

Calculate (i) Reorder Level
(ii) Minimum stock level
(iii) Maximum stock level

(06 marks)

(Total 20 marks)

(02) From the Cost Accounting records of a light engineering factory having two service departments S.D - 1 and S.D 2 and two production department P.D. - A and P.D. - B, the following information had been obtained.

	S.D - 1	S.D - 2	P.D - A	P.D - B
Floor Area (Sq. meters)	500	500	1000	2500
Value of plant and machinery (Rs.)	10,000	15,000	2,40,000	1,12,500
Effective load (kw)	20	30	150	50
Direct Labour hours	-	-	70,200	1,09,800

Budgeted expenses for the year

	Rs.
Indirect wages	50,000
Indirect Material	28,000
Power	200,000
Lighting	9,000
Repairs :Plant and machinery	30,200
Repairs : Buildings	10,800
Insurance : Plant and machinery	10,000
Insurance : Buildings	5,000
Rates and Taxes	3,600
Depreciation	45,300
General : miscellaneous Expenses	19,100

The following additional information is available.

(a) Indirect wages include the wages of 4 workers in S.D. - 1 and six workers in S.D.-2. The average wages per worker in both cases being Rs. 2,500 per year. The balance of indirect wages relates to those workers serving both the production department and it is estimated that on an average the requirements of P.D.-B takes up 40% of their time.

(b) Indirect materials include Rs. 10,000 and Rs. 6,000 used exclusively in P.D.-A and P.D.-B respectively, the balance being attributable to all the four department in equal proportions.

(c) General expenses are to be apportioned to only the two production departments on the basis of direct labour hours.

(d) The benefit of work done in each service department is shared by the other departments in the following ratio.

	S.D - 1	S.D - 2	P.D -1	P.D - B
S.D - 1	-	20%	50%	30%
S.D -2	-	-	80%	20%

You are required to prepare a statement showing the apportionment of overhead expenses to the departments briefly indicating the basis of such apportionment of each item of expenses. also compute relevant overhead absorption rates for P.D.-A and P.D.-B

(20 marks)

(03) (a) A firm manufactures component LH 500 and the costs for the current production level of 50,000 units are as follows.

Costs per unit

	Rs.
Materials	2.50
Labour	2.25
Variable over heads	1.75
Fixed over heads	3.50
Total cost	10.00

Component LH 500 could be bought from outside for Rs.: 8.75 and, If so, the production capacity utilised at preset would be unused. Should the firm manufacture or purchase component LH 500?

(06 marks)

(b) Calculate the earnings of workers A and B from the following particulars for a month and allocate the earnings to each job x; y and z.

	A	B
Basic wages.	Rs. 100	Rs. 100
Allowance	50%	55%
Provident fund (on basic wages)	8%	8%
Employee's Insurance (on basic wages)	2%	2%
Overtime	10 hrs	-
Idle time and leave.	-	16 hrs.

The normal working time for the month is 200 hours. Overtime is paid at double the normal wages plus allowance. Employer's contribution to Insurance and provident Fund are at equal rate with employees' contributions. The month contains 25 working days and one paid holiday. Two workers were employed on jobs x,y and z in the following proportions.

Job	x	y	z
worker A	80	60	60
worker B	100	40	60

Overtime was done on job "Y"

(14 marks)
(Total 20 marks)

(04) (a) Why is the marginal costing approach suitable for analyzing short run decisions?

(05 marks)

(b) The summarized Income statement for Tweed Ltd for the last year is as follows.

	Rs. 000	**Rs. 000**
Sales (50,000 units)		1000
Direct materials	350	
Direct wages	200	
Fixed production overhead	200	
Variable production overhead	50	
Administration overhead	180	
Selling and distribution overhead	120	1100
Profit/(loss)		(100)

At a recent board meeting the directors discussed the year's results, following which the Chairman asked for suggestions to improve the situation.

You are required as Management Accountant, to evaluate the following alternative proposals and to comment briefly on each.

i. Pay sale agents a commission of 10% of sales and thus increase sales to achieve breakeven point.

(06 marks)

ii. Reduce selling price by 10%, which it is estimated would increase sales volume by 30%

(04 marks)

iii. Increase direct wage rates from Rs. 4 to Rs. 5 per hour, as part of a productivity per pay deal. It is hoped that this would increase production and sales by 20%, but advertising costs would increase by Rs: 50,000.

(05 marks)

(Total 20 marks)

(05) (a) A firm is considering three projects each with an initial investment of Rs. 2000 and a life of 5 years. The profits generated by the projects are estimated to be as follows.

After tax and depreciation profits.

Year	Project I	Project II	Project III
1	400	700	300
2	400	400	300
3	400	300	300
4	400	300	400
5	400	300	700
Total	2000	2000	2000

Calculate the accounting rate of return (ARR) on Initial Capital.

(06 marks)

(b) EZ, Limited, well established in the express parcel delivery business, is evaluating a new venture, the establishment of a motorcycle courier service offering one day delivery. The venture would require the purchase of a building for Rs. 250,000 payable immediately. The building would need alterations casting Rs. 150,000 to enable it to become the control & distribution centre for a venture. The alterations would take a year, and operations could not commence until the building was ready. Immediately after completion of the building EZ Limited would take delivery of 100 motorcycles at Rs. 4000 each and engage riders.

Fixed costs are expected to be Rs. 750,000 per annum and a variable cost of Rs. 1/= per packet. Fixed costs are expected to increase by 8% per year and variable costs by 5% per year. Emphasis that business will enable to earn a profit after completing the 02 years. Rs. 50,000 working capital would need to be injected immediately prior to the starting business and expected to realize at the end. A market research survey, suggests that the price per packet should be Rs. 8. At this price the following numbers of packets are forecast.

Expected packets per year (000)

2nd year	160
3rd year	190
4th year	210
5th year	230
6th year	260

over the next six years, EZ Limited's cost of capital is expected to be 15% per annum. The board wishes to evaluate the venture over the first six year of operations, at the end of which the realizable value of the venture as expected to be 1 million.

You are required to calculate the expected net present value of the venture for the first six years of operations. Comments on the project.

(14 marks)

(Total 20 marks)

(06) (a) PYE: Ltd. intend to produce a very colorful bag. The company is interested in presenting its budget for the second quarter of 2009.

The following information's are made available for this purpose.

a. It expects to sell 50,000 bags during the second quarter of 2009 at the selling price of Rs. 9 per bag.
b. Each bag requires 2.5 Kgs of a raw-material called Q and 7.5 Kgs. of raw material called R.
c. Stock levels are planned as follows.

	Beginning of quarter	**End of quarter**
Finished bags (Nos)	15,000	11,000
Raw material Q (Kgs)	32,000	26,000
Raw material R (Kgs)	57,000	47,000
Empty bags (Nos.)	37,000	28,000

d. Q costs Rs .1.20 per Kg, R costs Rs. 0.20 per Kg and empty bag costs Rs.0.80 each.
e. It requires 9 minutes of direct labour time to produce a one bag labour cost is Rs. 5 per hour.
f. Variable manufacturing costs are Rs. 0.45 per bag. Fixed manufacturing costs Rs. 30,000 per quarter.
g. Variable selling and administration expenses are 5% of sales and fixed administration and selling expenses are Rs. 25,000 per quarter.

you are required to;

(i) Prepare a production budget for the second quarter.

(03 marks)

(ii) Prepare a raw-materials purchase budget Q,R and empty bags for the said quarter in quantity as well as in rupees.

(06 marks)

(iii) Computer the budgeted variable cost to produce one bag.

(03 marks)

(iv) Prepare a statement of budgeted net income for the said quarter.

(08 marks)

(Total 20 marks)

(07) (a) "Ratio analysis direct attention to areas where there are inefficiencies and thus it provides a valuable service for the organization." Do you agree with this statement? Briefly explain.

(04 marks)

(b) You have been furnished with the financial information of Sinthatic Ltd for the year 2009.

Balance Sheet as at March 31st 2009

Liabilities	**Rs. "000"**	**Assets**	**Rs. "000"**
Equity share capital (Rs. 100 each)	2000	Plant and equipment	1280
Retained earnings	736	land and buildings	160
Sundry creditors	208	Cash	320
Bills payable	400	Sundry debtors 720	
Other Current Liabilities	40	Less : Allowances 80	
			640
		Stock	960
		Prepaid insurance	24
	3384		3384

Statement of Profit for the, year ended March 31st 2009

	Rs. (000)
Sales	8000
Less: Cost of sales	(6160)
Gross profit on sales	1840
Less: Operating expenses	(1360)
Net Profit	480
Less: Taxes (0.35)	168
Net profit otter taxes	312

Sundry debtors and stock at the beginning of the year were Rs. 600,000 and Rs. 800,000 respectively.

Determine the following ratios of Sinthatic Ltd.

(i) Current ratio (ii) acid - test ratio
(iii) Stock turnover (iv) Debtors turnover
(v) Gross profit ratio (vi) Net profit ratio
(vii) Earning per share (viii) Rate of return on equity capital

(16 marks)

(Total 20 marks)

TABLE 2 THE PRESENT VALUE OF £1 @ i% FOR n YEARS = $(1+i)^{-n}$

n \ i	2.5	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0	12.0	14.0	15.0	16.0	18.0	20.0	25.0	30.0	35.0	40.0	45.0	50.0
1	.9756	.9709	.9615	.9524	.9434	.9346	.9259	.9174	.9091	.9009	.8929	.8772	.8696	.8621	.8475	.8333	.8000	.7692	.7407	.7143	.6897	.6667
2	.9518	.9426	.9246	.9070	.8900	.8734	.8573	.8417	.8264	.8116	.7972	.7695	.7561	.7432	.7182	.6944	.6400	.5917	.5487	.5102	.4756	.4444
3	.9286	.9151	.8890	.8638	.8396	.8163	.7938	.7722	.7513	.7312	.7118	.6750	.6575	.6407	.6086	.5787	.5120	.4552	.4064	.3644	.3280	.2963
4	.9060	.8885	.8548	.8227	.7921	.7629	.7350	.7084	.6830	.6587	.6355	.5921	.5718	.5523	.5158	.4823	.4096	.3501	.3011	.2603	.2262	.1975
5	.8839	.8626	.8219	.7835	.7473	.7130	.6806	.6499	.6209	.5935	.5674	.5194	.4972	.4761	.4371	.4019	.3277	.2693	.2230	.1859	.1560	.1317
6	.8623	.8375	.7903	.7462	.7050	.6663	.6302	.5963	.5645	.5346	.5066	.4556	.4323	.4104	.3704	.3349	.2621	.2072	.1652	.1328	.1076	.0878
7	.8413	.8131	.7599	.7107	.6651	.6227	.5835	.5470	.5132	.4817	.4523	.3996	.3759	.3538	.3139	.2791	.2097	.1594	.1224	.0949	.0742	.0585
8	.8207	.7894	.7307	.6768	.6274	.5820	.5403	.5019	.4665	.4339	.4039	.3506	.3269	.3050	.2660	.2326	.1678	.1226	.0906	.0678	.0517	.0390
9	.8007	.7664	.7026	.6446	.5919	.5439	.5002	.4604	.4241	.3909	.3606	.3075	.2843	.2630	.2255	.1938	.1342	.0943	.0671	.0484	.0353	.0260
10	.7812	.7440	.6756	.6139	.5584	.5083	.4632	.4224	.3855	.3522	.3220	.2697	.2472	.2267	.1911	.1615	.1074	.0725	.0497	.0346	.0243	.0173
11	.7621	.7224	.6496	.5847	.5268	.4751	.4289	.3875	.3505	.3173	.2875	.2366	.2149	.1954	.1619	.1346	.0859	.0558	.0368	.0247	.0168	.0116
12	.7436	.7014	.6246	.5568	.4970	.4440	.3971	.3555	.3186	.2858	.2567	.2076	.1869	.1685	.1372	.1122	.0687	.0429	.0273	.0176	.0116	.0077
13	.7254	.6810	.6006	.5303	.4688	.4150	.3677	.3262	.2897	.2575	.2292	.1821	.1625	.1452	.1163	.0935	.0550	.0330	.0202	.0126	.0080	.0051
14	.7077	.6611	.5775	.5051	.4423	.3878	.3405	.2992	.2633	.2320	.2046	.1597	.1413	.1252	.0985	.0779	.0440	.0254	.0150	.0090	.0055	.0034
15	.6905	.6419	.5553	.4810	.4173	.3624	.3152	.2745	.2394	.2090	.1827	.1401	.1229	.1079	.0835	.0649	.0352	.0195	.0111	.0064	.0038	.0023
16	.6736	.6232	.5339	.4581	.3936	.3387	.2919	.2519	.2176	.1883	.1631	.1229	.1069	.0930	.0708	.0541	.0281	.0150	.0082	.0046	.0026	.0015
17	.6572	.6050	.5134	.4363	.3714	.3166	.2703	.2311	.1978	.1696	.1456	.1078	.0929	.0802	.0600	.0451	.0225	.0116	.0061	.0033	.0017	.0010
18	.6412	.5874	.4936	.4155	.3503	.2959	.2502	.2120	.1799	.1528	.1300	.0946	.0808	.0691	.0508	.0376	.0180	.0089	.0045	.0023	.0012	.0007
19	.6255	.5703	.4746	.3957	.3305	.2765	.2317	.1945	.1635	.1377	.1161	.0829	.0703	.0596	.0431	.0313	.0144	.0068	.0033	.0017	.0009	.0005
20	.6103	.5537	.4564	.3769	.3118	.2584	.2145	.1784	.1486	.1240	.1037	.0728	.0611	.0514	.0365	.0261	.0115	.0053	.0025	.0012	.0006	.0003
21	.5954	.5375	.4388	.3589	.2942	.2415	.1987	.1637	.1351	.1117	.0926	.0638	.0531	.0443	.0309	.0217	.0092	.0040	.0018	.0009	.0004	.0002
22	.5809	.5219	.4220	.3418	.2775	.2257	.1839	.1501	.1228	.1007	.0826	.0560	.0462	.0382	.0262	.0181	.0074	.0031	.0014	.0006	.0003	.0001
23	.5667	.5067	.4057	.3256	.2618	.2109	.1703	.1378	.1117	.0907	.0738	.0491	.0402	.0329	.0222	.0150	.0059	.0024	.0010	.0004	.0002	.0001
24	.5529	.4919	.3901	.3101	.2470	.1971	.1577	.1264	.1015	.0817	.0659	.0431	.0349	.0284	.0188	.0126	.0047	.0018	.0007	.0003	.0001	.0001
25	.5394	.4776	.3751	.2953	.2330	.1842	.1460	.1160	.0923	.0736	.0588	.0378	.0304	.0245	.0160	.0105	.0038	.0014	.0006	.0002	.0001	.0000