University of Kelaniya - Sri Lanka

Centre for Distance and Continuing Education

Faculty of Commerce & Management Studies

Bachelor of Business Management (General) Degree Second Examination (External) – 2013

January - 2017

BMGT E2035 – Accounting for Managers

No of questions – Four (04) Time: 03 Hours

Answer all questions

Question 01

There are two mutually exclusive projects under active consideration of a company. Both the projects have a life of 5 years and have initial cash outlays of Rs. 100,000 each. The company pays tax at 50% rate and the maximum required rate of return of the company has been given as 10%. The straight line method of depreciation will be charged on the projects. The projects are expected to generate a net cash inflow before taxes as follows.

Year	Project X Rs.	Project Y Rs.
1	40,000	60,000
2	40,000	30,000
3	40,000	20,000
4	40,000	50,000
5	40,000	50,000

With the help of the above given information you are required to calculate:

(a) The Pay-back Period of each project

(05 marks)

(b) The Net Present Value and Profitability Index for each project

(10 marks)

(c) The Internal Rate of Return for each project

(05 marks)

(d) On the basis of your calculations advise the company which project it should accept giving reasons.

(05 marks)

(Total 25 Marks)

Question 02

You have been hired as an analyst for MMD Bank and your team is working on an independent assessment of F.F.D. & Co (FFD). FFD is a firm that specializes in the production of freshly imported farm products from China. Your assistant has provided you with the following data.

Ratio	2013	2012	2011	2013-Industry
Long-term debt	0.45	0.40	0.35	0.35
Inventory Turnover	62.65	42.42	32.25	53.25
Depreciation/Total Assets	0.25	0.014	0.018	0.015
Days' sales in receivables (Debtors Collection Period)	113	98	94	130.25
Debt to Equity	0.75	0.85	0.90	0.88
Profit Margin	0.082	0.07	0.06	0.075
Total Asset Turnover	0.54	0.65	0.70	0.40
Quick Ratio	1.028	1.03	1.029	1.031
Current Ratio	1.33	1.21	1.15	1.25
Times Interest Earned (Interest Cover)	0.9	4.375	4.45	4.65
Equity Multiplier	1.75	1.85	1.90	1.88

a) In the annual report to the shareholders, the CEO wrote, "2011 was a good year for the firm with respect to our ability to meet our short-term obligations. We had higher liquidity largely due to an increase in highly liquid current assets (cash, account receivables and short-term marke table securities)." Is the CEO correct? Explain

(marks 10)

b) What can you say about the firm's asset management?

(marks 08)

c) You are asked to provide the shareholders with an assessment of the firm's solvency and leverage. Evaluate.

(marks 07)

(Total 25 Marks)

Question No 3

a) The average variable cost is Rs. 5.00 per unit. The firm is selling 1000 units week. Average fixed cost is also Rs. 5 per unit. The market price for the product is Rs. 12.00 per unit.

i. Calculate total profit.
ii. Derive an equation for total cost.
iii. Calculate the break-even level of output.
iv. If the firm sets a target of Rs. 3400 as their weekly profit, how many units of output should it sell?

(Marks 08)

b) Draw a break-even diagram to illustrate each of the following scenarios:

i. An increase in output price
ii. A decrease in the price of a variable input
iii. A lower total fixed costs.

(9 marks)

c) A company uses 15,000 units of stock item "6786" each year. The item has a purchase cost of Rs. 4 per unit. The cost of placing an order for re-supply is Rs. 220. The annual holding cost of one unit of the item is 10% of its purchase cost.

Required

(i) What is the economic order quantity for item "6786", to the nearest unit?

(ii) What would be the effect of an increase in the annual holding cost per unit on (1) the EOQ and(2) total annual ordering costs?

(8 marks)

(Total 25 Marks)

Question No 4

Following data has been extracted from ABC Co.'s business plan for the year ended 30 September 201X

Sales	**Rs. '000**
Actual:	
January 201X	85,000
February 201X	95,000
Forecast:	
March201X	55,000
April 201X	60,000
May 201X	65,000
June 201X	55,000

Following information is also available:

i. Cash sale is 20% of the total sales. ABC earns a gross profit of 25% of sales and uniformly maintains stocks at 80% of the projected sale of the following month.

ii. 60% of the debtors are collected in the first month subsequent to sale where as the remaining debtors are collected in the second month following sales.

iii. In January 201x, ABC paid Rs. 2 million as 25% advance against purchase of packing machinery.

The machinery was delivered and installed in February 201x and was to be operated on test run for two months. 50% of the purchase price was agreed to be paid in the month following installation and the remaining amount at the end of test run.

v. Creditors are paid one month after purchases.

vi. Administrative and selling expenses are estimated at 16% and 24% of the sales respectively and are paid in the month in which they are incurred. ABC had cash and bank balances of Rs. 100 million as at 29th February 201x.

Required:

Prepare a month-wise cash budget for the quarter ending 31st March 201x.

(Total 25 Marks)