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) – 2014

September - 2017

BMGT E2035 – Accounting for Managers

No of questions – Five (05) Time: 03 Hours

All questions carry equal marks

Answer all Questions

Question No. 01

Two years' Balance sheets of ABC Company Ltd. are as follows

Liabilities	31-3-13	31-3-14	Assets	31-3-13	31-3-14
Equity Share capital	1,00,000	1,50,000	Land and building	1,00,000	90,000
10% Pref. Share capital	50,000	50,000	Machinery	90,000	90,000
General Reserve	30,000	30,000	Debtors	53,000	30,000
Profit and Loss A/C	20,000	(10,000)	Bills Receivable	20,000	12,000
Creditors	1,00,000	50,000	Stock	75,000	90,000
Bills payable	30,000	35,000	Bank Balance	15,000	35,000
Bank overdrafts	10,000	25,000	Cash Balance	2,000	13,000
Outstanding Expenses	15,000	30,000		-	
	355,000	360,000		355,000	360,000

Additional information :

	2012 – 13	2013 - 14
	Rs.	Rs.
(1) Sales	3,65,000	2,19,000
(2) Cost of Good Sold	2,19,000	1,46,000
(3) Net Profit before Pref. Dividend	35,000	47,500
(4) Stock 1.4.2012	71,000	-----

1) Calculate Following ratios
   a. Current Ratio
   b. Liquidity Ratio
   c. Debtors Turnover Ratio and Debtors collection period. (Take 365 days for calculations)
   d. Gross Profit Ratio
   e. Stock Turnover Ratio
   f. Return on equity

(12 marks)

2) Evaluate and compare the performance (financial and operational) of the company.

(08 marks)

(Total Marks 20)

Question No. 02

Kusala makes two products, the X1 and the X2. Unit variable costs are as follows.

	X1	X2
	Rs.	Rs.
Direct materials	1	3
Direct labour (Rs. 3 per hour)	6	3
Variable overhead	1	1
	8	7

The sales price per unit is Rs. 14 per X1 and Rs. 11 per X 2. During July the available direct labour is limited to 8,000 hours. Sales demand in July is expected to be as follows.

X1	3,000 units
X2	5,000 units

Required:

Determine the production mix that will maximize profit, assuming that fixed costs per month are Rs. 20,000 and that there is no opening inventory of finished goods or work in progress.

(Total Marks 20)

Question No. 03

AGA company manufactures and sells a product for Rs. 20 per Kg. The data for the year 2016 is given below:

- Sales in Kgs: 75,000 Kgs.
- Finished goods inventory at the beginning of the period: 12,000 Kgs.
- Finished goods inventory at the closing of the period: 17,000 Kgs.

Manufacturing costs:

- Variable cost: Rs. 8 per Kg
- Fixed manufacturing overhead cost: Rs. 320,000 per year

Marketing and administrative expenses:

- Variable expenses: Rs. 2 per Kg of sale
- Fixed expenses: Rs. 300,000 per year

Required:

1. Income statement using absorption and variable costing methods.

(10 marks)

2. Explanation of the cause of difference in net operating income under two methods.

(10 marks)

(Total Marks 20)

Question No. 04

Company XYZ Ltd commences trading on 1 June with a capital of Rs. 240,000. The following estimates have been made:

(a) Plant and equipment costing Rs. 160,000 will be purchased and installed prior to commencement of the business. The plant and equipment is payable in June and will be depreciated on a straight line basis over eight years with no expected disposal value

(b) On 1st June an initial stock of goods will be purchased for Rs. 96,000 payable in July. All goods sold from 1st June will be replaced immediately. Purchases will be on two months credit.

(c) Gross profit will be 331/3% on the cost of goods

(d) Forecast sales for the first three months are :

- June Rs. 92,000; July 108,000 & August Rs. 124,000
- Sales is on credit payable in the month following sale
- All sales are on credit and collection period is one month.

(e) Rent and rates, of Rs. 32,000 for twelve months and June rent is payable in July

(f) Wages and other overheads commencing in June are estimated at Rs. 24,000 per month. 50% will be paid in the month incurred with the balance payable in the following month

Required:

Prepare :

(a) A cash budget for each of the three months June, July and August

(10 marks)

(b) A budgeted Profit and Loss Account for the three months in total

(05 marks)

(c) A budgeted Balance sheet at 31st August

(05 marks)

(Total Marks 20)

Question No. 05

Asoka & Co. is considering a new investment which would start immediately and last four years. The company has gathered the following information:

- Asset cost – Rs.160,000
- Annual sales are expected to be 30,000 units in Years 1 and 2 and will then fall by 5,000 units per year in both Years 3 and 4.

- The selling price in first-year terms is expected to be Rs. 4.40 per unit and this is then expected to inflate by 3% per annum. The variable costs are expected to be Rs. 0.70 per unit in current terms and the incremental fixed costs in the first year are expected to be Rs. 0.30 per unit in current terms. Both of these costs are expected to inflate at 5% per annum.

- The asset is expected to have a residual value (RV) of Rs. 40,000 in money terms.
- The project will require working capital investment equal to 10% of the expected sales revenue. This investment must be in place at the start of first year.
- Corporation tax is 30% per annum and is paid one year in arrears. 25% reducing balance writing- down allowances are available on the asset cost.
- General inflation is 4% and the real cost of capital is 7.7%
- Rs. 12,000 has already been spent on feasibility study.

Required:

Applying Net Present Value (NPV), comment on the feasibility of the project.

(Total Marks 20)