



Institute of Human Resource Advancement (IHRA)

University of Colombo, Sri Lanka

Masters Degree in Business Management

**Course No 01
1st Semester Examination**

(Held on November/December - 2012)

Management Accounting - (MBM- 03)

Instructions to the Candidates

1. Answer any five (05) questions.
2. Total number of questions is Six (06)
3. Time allocated for the examination is three (03) hours.
4. Total number of pages fore (04)
5. At the end of the examination attach all answer sheets together.
6. Enter your index number on all pages of the answer sheets.
7. If a page or a part of this question paper is not printed properly, please inform the Supervisor immediately.

1. (a) A large manufacturing organization which has a number of different divisions has faced with the problems of evaluation of divisional performance. Discuss the different techniques that can be used to measure divisional performance and the problems associate with those indented techniques.

(14 Marks)

(b) Standard cost of production

Rs. 112,800

Adjusted variances

Material variance

3,580 A

Labour variance

5,440 A

Overhead variance

1,340 F

7,680 A

Actual cost of production

Rs. 120,480

Discuss possible reasons for the above variances.

(06 Marks)

(Total 20 Marks)

2. (a) Summarized financial performance of Neeegro Ltd; for the year ended March 31, 2012 as follows;

Ratio	Industry	Company
Current Ratio	2.2:1	3.5:1
Debtors turn over (times)	10	8
Stock turn over (times)	10	3.5
Assets turn over (times)	2	1.4
Gross profit margin	35%	30.0%
Net profit (before tax)	21%	14.5%
Total expenses on sales	14%	15.5%
Long term Debt to Equity capital	62.5%	33%
Earnings per share (Rs.10/= each) EPS	Rs.2/=	Rs. 0.78

Managing Director of the Neeegro Ltd. seeks your advice to improve the financial performance in future.

So, you are required to write a detail report to the Managing Director of the Neeegro Ltd. explaining about the current financial position and its consequences, reasons for such a weak performance and suggestions to improve the financial performance in future.

(15 Marks)

- (b) ABC Ltd. produces a super quality electronic product "SEENO" by assembling a number of sub components. It requires 5 hours to produce a unit on a particular machine which is working at full capacity. Selling price per unit is Rs.100/- and variable cost per unit is Rs. 60/-. Component X-101 which is assembled to SEENO could be produced on the same machine in 2 hours at a variable cost of Rs. 10/- per unit. Component X-101 can be purchase from open market at Rs.23/- per unit.

Advice, whether the company should produce or purchase the Component X-101.

(05 Marks)

(Total 20 Marks)

3. Write short notes on the followings;

- i. Behavioral aspect of budgeting and budgetary control.

(07 Marks)

- ii. Effects of the followings on Break-even Point and Profit Volume Ratio;

- a. Reduction in Variable cost per unit
- b. Increase in total fixed cost
- c. Increase in price of the product
- i. Increase in quantity of sales

(08 Marks)

- iii. Zero based budgeting as an approach towards productivity improvement

(05 Marks)

(Total 20 Marks)

4. (a) Maga company is using a machine which was purchased two years ago for Rs. 360,000/=. Its remaining useful life is ten years with no scrap value. But its current market value is Rs.100,000/=. Company is considering replace this machine with a more efficient new machine which cost is Rs. 420,000/=. Its estimated salvage value at the end of the useful life of 10 years is Rs. 20,000/=. The new machine will have a greater capacity than existing machine and annual sales are expected to go up by Rs. 40,000/= per year. The operating efficiency of the new machine will produce an expected savings of Rs. 50,000/- per year. Additionally, if the new machine is installed, inventories, receivables and payables will increase by Rs. 50,000/=. Rs. 25,000/= and Rs. 20,000/= respectively during the life of the project.

Assets depreciation policy of the company is straight line basis. Company tax rate is 25%. Cost of capital is 12%.

Determine the economic desirability of the purchase of the machine using Net Present Value method (NPV).

(15 Marks)

- (b) Discuss the significance of Cost-Volume-profit (CVP) analysis as a profit planning device.

(05 Marks)

(Total 20 Marks)

5. (a) "Balance Scorecard provides comprehensive guidelines to measure organizational performance in today's complex business environment". Discuss.

(Significance of balanced scorecard against the traditional performance measurement techniques in management decision making process, missing elements of balanced scorecard and implementation problems etc. need to be incorporated to your answer).

(12 Marks)

- (b). Discuss problems of traditional overhead cost allocation methods and the improved features of activity based cost allocation method in order to overcome the identified problems of the traditional overhead allocation methods.

(08 Marks)

(Total 20 Marks)

6. (a) Discuss how management accounting helps to managers in order to make their decisions?

(10 Marks)

- (b). Moratu furniture dealers have two sales stores located in Colombo and Jaffna. Each location has a manager who is given a great deal of decisions authority over his/her stores. However, advertising, market research, legal services, and other staff functions are handled by the central office. Moratu furniture dealers' current accounting system allocated all costs to the sales stores. Results for the year ended 31st March 2012 is given below.

Moratu furniture dealers

Financial results of the year ended 31st March 2012

	Total	Colombo	Jaffna
	Rs.	Rs.	Rs.
Sales Revenue	700,000	350,000	350,000
Cost of goods sold	450,000	225,000	225,000
Gross margin	250,000	125,000	125,000
Operating expenses			
Salaries and wages	63,000	30,000	33,000
Supplies	45,000	22,500	22,500
Rent and utilities	60,000	40,000	20,000
Depreciation	15,000	7,000	8,000
Allocated staff costs	60,000	30,000	30,000
Total operating expenses	243,000	129,500	113,500
Operating Income (Loss)	7,000	(4,500)	11,500

Each store manager makes decisions that affect salaries and wages, supplies, and depreciation. In contrast, rent and utilities are beyond the manager's control because the managers did not choose the location or size of the store.

Supplies are variable costs. Variable salaries and wages are equal to 8% of the cost of goods sold; the remainder of salaries and wages is a fixed costs. Allocated staff costs are unaffected by any events at the stores, but they are allocated as a proportion of sales revenue.

You are required, from the information given, to comment on the way in which the performance report has been prepared and to suggest improvements that could be introduced when preparing the performance reports for the next year.

(10 Marks)

(Total 20 Marks)

Table II: Present Value Interest Factor

Period n	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885	0.877
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826	0.812	0.797	0.783	0.769
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751	0.731	0.712	0.693	0.675
4	0.961	0.924	0.889	0.855	0.823	0.792	0.763	0.735	0.708	0.683	0.659	0.636	0.613	0.592
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621	0.593	0.567	0.543	0.519
6	0.942	0.888	0.838	0.790	0.746	0.705	0.666	0.630	0.596	0.564	0.535	0.507	0.480	0.456
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513	0.482	0.452	0.425	0.400
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467	0.434	0.404	0.376	0.351
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424	0.391	0.361	0.333	0.308
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386	0.352	0.321	0.295	0.270
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350	0.317	0.287	0.261	0.237
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319	0.286	0.257	0.231	0.208
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290	0.258	0.229	0.204	0.182
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263	0.232	0.205	0.181	0.160
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239	0.209	0.183	0.160	0.140
16	0.853	0.728	0.623	0.534	0.458	0.394	0.339	0.292	0.252	0.218	0.188	0.163	0.141	0.123
17	0.844	0.714	0.605	0.513	0.436	0.371	0.317	0.270	0.231	0.198	0.170	0.146	0.125	0.108
18	0.836	0.700	0.587	0.494	0.416	0.350	0.296	0.250	0.212	0.180	0.153	0.130	0.111	0.095
19	0.828	0.686	0.570	0.475	0.396	0.331	0.276	0.232	0.194	0.164	0.138	0.116	0.098	0.083
20	0.820	0.673	0.554	0.456	0.377	0.312	0.258	0.215	0.178	0.149	0.124	0.104	0.087	0.073
24	0.788	0.622	0.492	0.390	0.310	0.247	0.197	0.158	0.126	0.102	0.082	0.066	0.053	0.043
25	0.780	0.610	0.478	0.375	0.295	0.233	0.184	0.146	0.116	0.092	0.074	0.059	0.047	0.038
30	0.742	0.552	0.412	0.308	0.231	0.174	0.131	0.099	0.075	0.057	0.044	0.033	0.026	0.020
40	0.672	0.453	0.307	0.208	0.142	0.097	0.067	0.046	0.032	0.022	0.015	0.011	0.008	0.005

Table IV: Present Value of an Annuity Interest Factor

Period n	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885	0.877
2	1.970	1.942	1.913	1.886	1.859	1.833	1.808	1.783	1.759	1.736	1.713	1.690	1.668	1.647
3	2.941	2.884	2.829	2.775	2.723	2.673	2.624	2.577	2.531	2.487	2.444	2.402	2.361	2.322
4	3.902	3.808	3.717	3.630	3.546	3.465	3.387	3.312	3.240	3.170	3.102	3.037	2.974	2.914
5	4.853	4.713	4.580	4.452	4.329	4.212	4.100	3.993	3.890	3.791	3.696	3.603	3.517	3.433
6	5.795	5.601	5.417	5.242	5.076	4.917	4.766	4.623	4.486	4.355	4.231	4.111	3.998	3.889
7	6.728	6.472	6.230	6.002	5.786	5.582	5.389	5.206	5.033	4.868	4.712	4.564	4.423	4.288
8	7.652	7.325	7.020	6.733	6.463	6.210	5.971	5.747	5.535	5.335	5.146	4.968	4.799	4.639
9	8.566	8.102	7.786	7.435	7.108	6.802	6.515	6.247	5.995	5.759	5.537	5.328	5.132	4.946
10	9.471	8.983	8.530	8.111	7.722	7.360	7.024	6.710	6.418	6.145	5.889	5.650	5.426	5.216
11	10.368	9.787	9.253	8.760	8.306	7.887	7.499	7.139	6.805	6.495	6.207	5.936	5.687	5.453
12	11.255	10.575	9.954	9.385	8.863	8.384	7.943	7.536	7.161	6.814	6.492	6.194	5.918	5.660
13	12.134	11.340	10.635	9.986	9.384	8.853	8.358	7.904	7.487	7.103	6.750	6.424	6.127	5.842
14	13.004	12.106	11.296	10.563	9.899	9.295	8.745	8.244	7.786	7.367	6.982	6.628	6.302	6.002
15	13.865	12.849	11.938	11.118	10.380	9.712	9.108	8.559	8.061	7.606	7.191	6.811	6.462	6.142
16	14.718	13.578	12.561	11.652	10.838	10.106	9.447	8.851	8.312	7.824	7.379	6.974	6.604	6.265
17	15.562	14.292	13.166	12.166	11.274	10.477	9.763	9.122	8.544	8.022	7.549	7.120	6.729	6.373
18	16.398	14.992	13.754	12.659	11.690	10.828	10.059	9.372	8.756	8.201	7.702	7.250	6.840	6.467
19	17.226	15.678	14.324	13.134	12.085	11.158	10.336	9.604	8.950	8.365	7.839	7.366	6.938	6.550
20	18.046	16.351	14.877	13.590	12.462	11.470	10.594	9.818	9.128	8.514	7.963	7.469	7.025	6.623
24	21.243	18.914	16.936	15.247	13.799	12.550	11.469	10.529	9.707	8.985	8.348	7.784	7.283	6.835
25	22.023	19.523	17.413	15.622	14.094	12.783	11.654	10.675	9.823	9.077	8.422	7.843	7.330	6.873
30	25.806	22.397	19.600	17.292	15.373	13.765	12.409	11.258	10.274	9.427	8.694	8.055	7.496	7.003
40	32.835	27.355	23.115	19.793	17.159	15.046	13.332	11.925	10.757	9.779	8.951	8.244	7.634	7.105