



INSTITUTE OF HUMAN RESOURCE ADVANCEMENT
UNIVERSITY OF COLOMBO, SRI LANKA
Masters Degree in Business Management - Course No.02
1st Semester Examination
(Held in December, 2013)
MBM 03 – Management Accounting

Instructions to the Candidates

- (1) Total number of pages – Four (04)
- (2) Total number of questions – Six (06)
- (3) Answer any Five (05) questions.
- (4) If a page or a part of this question paper is not printed, please inform the Supervisor immediately.
- (5) Time allocated for the examination is three (03) hours.
- (6) Write your index number in all pages of answer script
- (7) Tie up all answer sheets at the end of the examination

1. (a) Discuss in what ways following tow statements are relevant to design an effective management accounting system.

i. Cost can be classified in a number of ways including classification by behavior, by function, by type of expenses, by controllability and by relevance.

ii. Management accounting should assists in each of the planning, controlling and decision making process in an organization.

(10 Marks)

(b) How accounting concept of Responsibility can use as a management control system? Explain your answer.

(10 Marks)

(Total 20 Marks)

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

(05 Marks)

(b) "One of the roles of a budget within an organizational context is motivating managers." Do you agree with this statement? Support your answer.

(08 Marks)

(c) Explain marginal cost concept and its significance for management decision making

(07 Marks)

(Total 20 Marks)

3. "Activity Based Costing / management, Budgeting and the Balance Score Card draw attention on different aspects of the management control system". Do you agree with this statement? Justify your answer.

(Total 20 Marks)

4. (a) The Production Manager of a manufacturing company noticed that the usage of the particular raw material has consistently exceeded its standard for several weeks. A reviewer of production techniques and quality control practices indicates that the material quantity standard for this item is still reasonable and attainable.

Identity reasons and responsible for this situation.

(10 marks)

(b) Modi Elect Ltd; currently produces one major component "supper circuit" which requires to their main product at their own factory. They have a specific machine that can be used only to produce this component. Its cost was Rs. 35,000/ and current book value is Rs. 20,000/. It current scrap value is Rs. 10,000/. However if this machine is used for next three years, its market value will be Zero. If this machine is removed from the factory that space can be rent out at Rs. 12,000/ per annum. Cost of production per unit of this component is as follows. (Rupees)

Labour	3.00
Material	7.00
Fixed overhead	2.00 (absorption of service department and Head office expenses)
Variable overhead	3.00
Total cost	15.00

It is required to maintain Rs.12, 000/ worth stock in order to produce this component. In next 3 years, 2000 units of this component is required per annum. Cost of capital of the firm is 20%. An outside supplier has agreed to supply this component at Rs.20/ per unit. Decide whether this component to be produce or buy from outside supply.

(10 Marks)

(Total 20 Marks)

5. (a) Alpha company is contemplating purchasing a new mass storage unit for its computer facility. Its estimated cost is Rs. 200,000/= which is financed by Rs. 150,000/= from bank loan at 12% p.a. and Rs. 50,000/= personal loan at 15% p.a. Further the company estimates Rs. 20,000/= as maintenance cost for each year of its operation. Due to rapid technological development in the computer industry, company has decided to depreciate current model within five years with Rs. 40,000/= salvage value on straight line basis. The projected cash flows of the proposed Investment are as follows.
- Year 1-5, Rs.50,000/=, Rs.80,000/=, Rs.100,000/=, Rs.80,000/=, Rs.60,000/= respectively. Assume that company tax rate is 25%.
- Advise to management whether this investment should be accepted or not. Use net present value method for your evaluation.

(15 Marks)

(b) Milko Ltd; incurring losses during the last few years from of its major product. Cost structure / selling price of this product unit is as follows.

Selling price			Rs. 80.00
Variable cost- Material	Rs. 32.00		
Labour	28.00		
Other	10.00		<u>70.00</u>
Contribution			10.00
Fixed cost			Rs. 750,000/

If the plant is shutdown fixed cost can be reduced by Rs. 350,000/

Write a report to the management explaining whether this plant to be shutdown. Identify the non-financial factors that should be considered in relating to the shutdown decision.

(05 Marks)

(Total 20 Marks)

6. (a) Following information is summarized from the annual budget 2014 of Malima Ltd; which produce three different product namely Feno, Cleno, and Seeno.

	Feno,	Cleno,	Seeno
Sales mix	40%	35%	25%
Selling price per unit Rs.	20	25	30
Variable cost per unit Rs.	10	15	18
Total fixed cost	Rs		150,000
Total sales	Rs.		500,000

The company proposes to replace product Seeno by Deeno. Estimated figures are as follows.

	Feno,	Cleno	Deeno
Sales mix	50%	30%	20%
Selling price per unit Rs.	20	25	28
Variable cost per unit Rs.	10	15	14
Total fixed cost	Rs		150,000
Total sales	Rs.		500,000

Is it profitable to replaced seeno product by producing Deeno? Explain your answer.

(10 Marks)

(b). ABC Company produces two products – Mee and See. Summarized information related to these two products are given below.

Products	Actual out put – units	Total machine hours	Total number of purchase order	Total number of set-ups
Mee	10,000	20,000	166	28
See	60,000	120,000	384	42

Actual overheads incurred during the period are as follows.

Volume related activity costs	Rs. 450,000
Set-ups related costs	Rs. 870,000
Purchase related costs	Rs. 588,000

Calculate cost per unit of each product under Traditional cost allocation method and Activity Based Cost allocation methods.

(10 Marks)

(Total 20 Marks)

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