IHRA
UNIVERSITY OF COLOMBO

INSTITUTE OF HUMAN RESOURCE ADVANCEMENT

UNIVERSITY OF COLOMBO, SRI LANKA

Masters Degree in Business Management - Course No.03

1st Semester Examination

(Held in January, 2015)

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 Four (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) Management Accounting is "the presentation of accounting information to assist management in the creation of policy and in the day-to-day operations of an entity". Discuss.

(10 marks)

(b). Briefly explain a cost centre, a profit centre, and an investment centre and discuss problems and benefits from using them as a part of the management control system of a manufacturing organization.

(10 marks)

(Total 20 Marks)

2. (a) "It is now widely accepted that conventional cost accounting distorts management's view of business through unrepresentative overhead allocation and inappropriate product costing since, traditional approach usually absorb overhead costs across products and orders solely on the basis of a single absorption method".

You are required to discuss the above statement and to suggest what approaches are being adopted by management accountants to over -come such criticism.

(10 Marks)

(b) Briefly discuss the procedure which would you adopt to study the liquidity of a business unit.

(05 Marks)

(c). "ROI is the best measurement of overall performance". Comment on this statement.

(05 marks)

(Total 20 Marks)

3. The owners of the Eatwell restaurant have diversified business interests and operate in a wide range of commercial areas. Since buying the restaurant in 2010 they have carefully recorded the data and its summary is given below:

	2010	2011	2012	2013
Total meals served	3750	5100	2000	2001
Regular customers attending weekly	5	11	15	26
Number of items on offer per day	4	4	7	9
Reported cases of food poisoning	4	5	7	7
Special themes introduced	0	3	9	13
Annual operating hours with no customers	380	307	187	126
proposals submitted to cater for special events	10	17	29	38
contracts to cater special events	2	5	15	25
complementary letters from satisfied customers	0	4	3	6
Average no. of customers at peak times	18	23	37	39
Average service delay at peak time(min.)	32	47	15	35
Maximum seating capacity	25	25	40	40
weekly operating hours	36	36	40	36
written complained received	8	12	14	14
Idle time	570	540	465	187
New meals introduced during the year	16	8	27	11
Financial data	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Average amount spend on a beer by a customer	300	400	400	700
Total turnover	83,000	124,500	137,000	185,000
Turnover from special events	20,000	130,000	250,000	550,000
Profit	1,160,000	2,140,000	4,370,000	5,720,000
Value of foods wasted	17,000	19,000	36,000	14,500

You are required to assess the overall performance of the business.

(Total 20 Marks)

4. (a) "It is essential to identify Responsibility Centers in order to measure divisional performance of an organization"
Discuss different Responsibility Centers and how performances of those identified responsibility centers are measured.

(12 marks)

(b) Discuss marginal cost concept and its significance for management decision making.

(08 marks)

(Total 20 Marks)

5. (a) "When products or services are sold inter department wise, transfer pricing mechanism is applied to determine departmental income".
Discuss different transfer pricing methods in practice.

(10 marks)

(b) A company produces one of the major components of its main product. This part is produced in two manufacturing steps. Annual requirements are 50,000 units. Cost structures of two steps are given below.

	Step I	Step II
Direct materials	Rs. 82, 800	---
Direct Labour	110,400	Rs. 73,600
Variable overhead	55,200	44,800
General overhead	47,840	44,160
Total cost	296,240	162,560
Total cost of both steps	Rs. 458,800	

The general overhead comprising both fixed and variable overhead cost, is allocated as, Rs.36,800 + 10% from direct labour.

The company can eliminate manufacturing step I if it purchase this part from outside. The outside vendor agrees to supply 50,000 units per year at Rs. 4.30 per unit. The company will have to pay freight of Rs. 10,000 per year on the purchased part. If the parts are purchased, this will release space for performing manufacturing step I that can be rented for Rs. 20,000 per year.

Decide whether this should be manufactured or purchased.

(10 marks)

(Total 20 Marks)

6. (a) Total assets employment is Rs. 600,000/=. 40% of the assets have being financed by borrowed capital at 8% interest rate per annum and the balance from Rs.10/= ordinary shares. The direct cost is Rs.480,000/= and all other operating expenses is Rs. 60,000/=. The goods are sold to customers at 150% of the direct cost. Company tax rate is 25%. You are required to calculate the following.

i. Net profit margin
ii. Return on assets
iii. Assets turnover ratio
iv. Return on equity
v. Earnings per share

(10 marks)

(b) A glasses manufacturer is considering an investment proposal of a production of high quality glasses. The cost of necessary equipment is Rs. 80,000/= and working capital requirement is Rs. 20,000/=. Estimated project life is 5 years with no salvage value at the end. Selling price per glass is Rs.4/=. Regardless of production level estimated cash cost is Rs. 25,000/= and overhead cost allocation to this product line is Rs. 5,000/=.Variable cost per glass is Rs.2/=. Estimated annual sales are 75,000 glasses. The straight line basis is applied for the depreciation. Company tax rate is 25%. This project is financed with Rs.50,000/= from owners' money which was paid 10% interest per annum, Rs. 30,000/= from bank loan at 15% per annum and Rs.20,000/= from personal loan at 12.5% per annum.

Calculate the economic desirability of the project using Net Present Value method.

(10 marks)

(Total 20 Marks)

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