



**Institute of Human Resource Advancement (IHRA)**  
***University of Colombo, Sri Lanka***

**Master of Science in Service Management Course No.07**

**2<sup>nd</sup> Trimester Examination – English Medium**

**(Held in July, 2022)**

**MSM 5231 – Accounting for Services**

**(Online Examination)**

**Instructions to the Candidates**

- (1) This paper consists of five (05) questions and seven (07) pages.
- (2) **Answer only four questions.**
- (3) Time allocated for the examination is two (02) hours.
- (4) Write your Index Number on all pages of answer scripts.
- (5) Table provided.
- (6) Scan all answer sheets into a one PDF file and submit into the submit box.
- (7) If a page or a part of this question paper is not printed, please inform the Supervisor immediately.

01.

- a. “Traditional costing system can provide misleading information for decision making”. Do you agree? Explain your answer with examples?

(07 Marks)

- b. “Many large-scale service organizations encourage the application of activity-based costing to analysis the cost of their services”. Discuss this statement considering features of activity-based costing.

(08 Marks)

- c. Explains how do management accountants support strategic decision in service organizations.

(10 Marks)

(Total 25 Marks)

02.

- a. Super Travels Lanka (Pvt) Ltd. is an air ticket agent and international visa consultant. The company specializes in flights between Sri Lanka and Australia and booked air tickets on Sri Lankan airline at Rs. 150,000 for a round-trip until June 2022. The company collected a commission of 5% from Sri Lanka airline for each ticket booked. The commission is the only source of revenue for the company as the economic crisis has caused disruption.

Super travels’ costs are as follows.

Fixed costs:

Office rent	Rs.100,000
Employee salaries	Rs.250,000
Other fixed costs	Rs.50,000

Variable cost (per ticket):

Ticket hand Delivery fee	Rs. 250
Sales commission	Rs.500
Other variable costs	Rs.1250

Due to the economic crisis, Sri Lankan Airline has announced a new commission scheme for all ticket agents. Accordingly, the airline will pay a commission of 5% per-ticket up to a maximum of Rs.100,000. Any ticket costing more than Rs.100,000 will generate a commission of Rs. 5,000 regardless of the air ticket price.

Calculate the following for Super Travel's company under the old and new commission schemes.

- i. how many round-trip tickets should Super Travel sell each month to break even?
- ii. Calculate to earn an operating income Rs.500,000?

(15 Marks)

- b. i. Susuki Ltd. is a leading repair and maintenance service provider in Sri Lanka. Standard and actual time allocated for a job and the payment rates for their employees are given below.

Standard hours for the specific job	500 hours
Actual hours used to complete the job	550 hours
Standard wage rates per hour	Rs.1200
Actual rate of wages per hour	Rs. 1400

Calculate the relevant labour variances.

- ii. Briefly explain how managers use the various type labour variances for controlling a service organization.

(10 marks)

(Total 25 Marks)

03.

- a. "Cost-plus pricing is the most suitable for the service-oriented firms in practice". Do you with the above statement? Explain.

(05 Marks)

- b. Mr. Silva is the CEO of a 100-room hotel he finished constructing in the Galle area. Mr Silva predicts allocating the rooms for 25,000 nights in 2023 (25,000 rooms-nights). All the rooms are almost similar and will charge a comparable price. Mr Silva estimates the following operating costs for the following year.

Variable cost:

Water bottles and other consumable items) Rs. 244 per room night.

Annual fixed costs:

Employee Salaries	Rs.2500,000
Maintenance cost of Rooms and pool	Rs.700,000
Other administration expenses	Rs.1200,000

The initial investment for the hotel was Rs. 22,500,000. The target return on investment is 20%. Mr Silva assumes the demand for rooms to be uniform throughout the following year, and he plans to price the rooms at total costs plus a markup.

- i. Determine the price for a room night?
- ii. If the price of a room-night is reduced by 15% then the expected number of room-nights could be increased by 15%. Do you think Silva should reduce charges by 15%? Explain your answer using relevant calculations.

(12 Marks)

- c. “ The break even point of a product is reached at a lower level of activity in the undertaking with a low fixed cost”. Critically comment on the statement.

(08 marks)

(Total 25 marks)

04.

- a. DB Company manufactures sports shoes for indoor games using modern technology. The present output of the company is 60% of its capacity of 20,000 units per annum. A foreign company has checked the quality of the company's

product and sent an order of 6,000 shoe pairs at a special price of Rs. 6000 per pair. The company has been selling a pair of shoes at Rs. 8,000. The standard cost per pair is given below.

Cost unit	Rs.
Leather and other materials	2200
Labour charges	1200
Fixed overhead	800
Administrative variable cost	100

- i. Should the company accept the foreign company's offer?
- ii. What would be your advice to the company if the importer offers to buy 10,000 units instead of 6,000?

(15 Marks)

- b. Super Management Service Ltd. evaluated contractors' proposals for constructing a new building and selected a contractor who is ready to start as soon as the contract is signed and will complete the work in three years. After the final discussion, the contractor has offered a three payment plans for the contract value as follows.

Plan 1:

a payment of Rs.300,000 on the contract signing date and Rs.5,000,000 at the completion time. The completion date is at the end of three years.

Plan 2:

an initial payment of Rs.1,000,000 on the contract signing date and Rs.2,000,000 at the end of the following two succeeding years.

Plan 3:

an initial payment of Rs.500,000 on the contract signing date and Rs.1,500,000 each at the end of the next three years.

The MD has requested the Finance Director to evaluate the three payment plans of the contractor. The company has a return rate (ROI) of 12%. Assume no taxes.

- i. Using the net present value method, calculate the total cost of each of the three payment plans being considered by the company.
- ii. Which payment plan do you recommend? Explain your answer.

(10 Marks)

(Total 25 Marks)

05.

- a. “Sales forecast is the cornerstone for the budgeting”. Explain.

(6 Marks)

- b. Public Corp. expects to have Rs. 27500,000 cash in hand on 1<sup>st</sup> April 2023, and it requires you to prepare a cash estimate for the three months from April to June 2023. The following information is supplied to you.

	Sales Rs. ‘000	Purchases Rs. ‘000	Salaries Rs. ‘000	Administrative Expenses Rs. ‘000
February	70,000	40,000	8,000	6,000
March	80,000	50,000	8,000	7,000
April	92,000	52,000	9,000	7,000
May	100,000	60,000	10,000	8,000
June	120,000	55,000	12,000	9,000

Other information is as follows.

- i. The company purchases are on a credit basis. 60% of the purchases are paid for in the month, with the remainder paid in the following month.
- ii. Company sales consist of cash and credit sales, and 20% of sales represent cash sales. Credit sales are collected 30% in the sales month, 45% in the following month and the balance in the second month following the sale.

- iii. Delay in payment of salaries and administrative expenses by one month.
- iv. Income tax of Rs. 250,000 is to be paid in June 2023.
- v. Administrative expenses of the month include monthly office furniture and equipment depreciation of Rs. 750,000.

(12 Marks)

- c. “A financial statement analysis report helps to decrease uncertainty in business decisions through a rigorous and sound evaluation”. Discuss.

(7 Marks)

(Total 25 Marks)

**EXHIBIT 13B-1**Present Value of \$1;  $\frac{1}{(1 + r)^n}$ 

Periods	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	21%	22%	23%	24%	25%
1	0.962	0.952	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833	0.826	0.820	0.813	0.806	0.800
2	0.925	0.907	0.890	0.873	0.857	0.842	0.826	0.812	0.797	0.783	0.769	0.756	0.743	0.731	0.718	0.706	0.694	0.683	0.672	0.661	0.650	0.640
3	0.889	0.864	0.840	0.816	0.794	0.772	0.751	0.731	0.712	0.693	0.675	0.658	0.641	0.624	0.609	0.593	0.579	0.564	0.551	0.537	0.524	0.512
4	0.855	0.823	0.792	0.763	0.735	0.708	0.683	0.659	0.636	0.613	0.592	0.572	0.552	0.534	0.516	0.499	0.482	0.467	0.451	0.437	0.423	0.410
5	0.822	0.784	0.747	0.713	0.681	0.650	0.621	0.593	0.567	0.543	0.519	0.497	0.476	0.456	0.437	0.419	0.402	0.386	0.370	0.355	0.341	0.328
6	0.790	0.746	0.705	0.666	0.630	0.596	0.564	0.535	0.507	0.480	0.456	0.432	0.410	0.390	0.370	0.352	0.335	0.319	0.303	0.289	0.275	0.262
7	0.760	0.711	0.665	0.623	0.583	0.547	0.513	0.482	0.452	0.425	0.400	0.376	0.354	0.333	0.314	0.296	0.279	0.263	0.249	0.235	0.222	0.210
8	0.731	0.677	0.627	0.582	0.540	0.502	0.467	0.434	0.404	0.376	0.351	0.327	0.305	0.285	0.266	0.249	0.233	0.218	0.204	0.191	0.179	0.168
9	0.703	0.645	0.592	0.544	0.500	0.460	0.424	0.391	0.361	0.333	0.308	0.284	0.263	0.243	0.225	0.209	0.194	0.180	0.167	0.155	0.144	0.134
10	0.676	0.614	0.558	0.508	0.463	0.422	0.386	0.352	0.322	0.295	0.270	0.247	0.227	0.208	0.191	0.176	0.162	0.149	0.137	0.126	0.116	0.107
11	0.650	0.585	0.527	0.475	0.429	0.388	0.350	0.317	0.287	0.261	0.237	0.215	0.195	0.178	0.162	0.148	0.135	0.123	0.112	0.103	0.094	0.086
12	0.625	0.557	0.497	0.444	0.397	0.356	0.319	0.286	0.257	0.231	0.208	0.187	0.168	0.152	0.137	0.124	0.112	0.102	0.092	0.083	0.076	0.069
13	0.601	0.530	0.469	0.415	0.368	0.326	0.290	0.258	0.229	0.204	0.182	0.163	0.145	0.130	0.116	0.104	0.093	0.084	0.075	0.068	0.061	0.055
14	0.577	0.505	0.442	0.388	0.340	0.299	0.263	0.232	0.205	0.181	0.160	0.141	0.125	0.111	0.099	0.088	0.078	0.069	0.062	0.055	0.049	0.044
15	0.555	0.481	0.417	0.362	0.315	0.275	0.239	0.209	0.183	0.160	0.140	0.123	0.108	0.095	0.084	0.074	0.065	0.057	0.051	0.045	0.040	0.035
16	0.534	0.458	0.394	0.339	0.292	0.252	0.218	0.188	0.163	0.141	0.123	0.107	0.093	0.081	0.071	0.062	0.054	0.047	0.042	0.036	0.032	0.028
17	0.513	0.436	0.371	0.317	0.270	0.231	0.198	0.170	0.146	0.125	0.108	0.093	0.080	0.069	0.060	0.052	0.045	0.039	0.034	0.030	0.026	0.023
18	0.494	0.416	0.350	0.296	0.250	0.212	0.180	0.153	0.130	0.111	0.095	0.081	0.069	0.059	0.051	0.044	0.038	0.032	0.028	0.024	0.021	0.018
19	0.475	0.396	0.331	0.277	0.232	0.194	0.164	0.138	0.116	0.098	0.083	0.070	0.060	0.051	0.043	0.037	0.031	0.027	0.023	0.020	0.017	0.014
20	0.456	0.377	0.312	0.258	0.215	0.178	0.149	0.124	0.104	0.087	0.073	0.061	0.051	0.043	0.037	0.031	0.026	0.022	0.019	0.016	0.014	0.012
21	0.439	0.359	0.294	0.242	0.199	0.164	0.135	0.112	0.093	0.077	0.064	0.053	0.044	0.037	0.031	0.026	0.022	0.018	0.015	0.013	0.011	0.009
22	0.422	0.342	0.278	0.226	0.184	0.150	0.123	0.101	0.083	0.068	0.056	0.046	0.038	0.032	0.026	0.022	0.018	0.015	0.013	0.011	0.009	0.007
23	0.406	0.326	0.262	0.211	0.170	0.138	0.112	0.091	0.074	0.060	0.049	0.040	0.033	0.027	0.022	0.018	0.015	0.012	0.010	0.009	0.007	0.006
24	0.390	0.310	0.247	0.197	0.158	0.126	0.102	0.082	0.066	0.053	0.043	0.035	0.028	0.023	0.019	0.015	0.013	0.010	0.008	0.007	0.006	0.005
25	0.375	0.295	0.233	0.184	0.146	0.116	0.092	0.074	0.059	0.047	0.038	0.030	0.024	0.020	0.016	0.013	0.010	0.009	0.007	0.006	0.005	0.004
26	0.361	0.281	0.220	0.172	0.135	0.106	0.084	0.066	0.053	0.042	0.033	0.026	0.021	0.017	0.014	0.011	0.009	0.007	0.006	0.005	0.004	0.003
27	0.347	0.268	0.207	0.161	0.125	0.098	0.076	0.060	0.047	0.037	0.029	0.023	0.018	0.014	0.011	0.009	0.007	0.006	0.005	0.004	0.003	0.002
28	0.333	0.255	0.196	0.150	0.116	0.090	0.069	0.054	0.042	0.033	0.026	0.020	0.016	0.012	0.010	0.008	0.006	0.005	0.004	0.003	0.002	0.002
29	0.321	0.243	0.185	0.141	0.107	0.082	0.063	0.048	0.037	0.029	0.022	0.017	0.014	0.011	0.008	0.006	0.005	0.004	0.003	0.002	0.002	0.002
30	0.308	0.231	0.174	0.131	0.099	0.075	0.057	0.044	0.033	0.026	0.020	0.015	0.012	0.009	0.007	0.005	0.004	0.003	0.003	0.002	0.002	0.001
40	0.208	0.142	0.097	0.067	0.046	0.032	0.022	0.015	0.011	0.008	0.005	0.004	0.003	0.002	0.001	0.001	0.001	0.000	0.000	0.000	0.000	0.000



# EXHIBIT 13B-2

Present Value of an Annuity of \$1 in Arrears;  $\frac{1}{r} \left[ 1 - \frac{1}{(1+r)^n} \right]$

Periods	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	21%	22%	23%	24%	25%
1	0.962	0.952	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833	0.826	0.820	0.813	0.806	0.800
2	1.886	1.859	1.833	1.808	1.783	1.759	1.736	1.713	1.690	1.668	1.647	1.626	1.605	1.585	1.566	1.547	1.528	1.509	1.492	1.474	1.457	1.440
3	2.775	2.723	2.673	2.624	2.577	2.531	2.487	2.444	2.402	2.361	2.322	2.283	2.246	2.210	2.174	2.140	2.106	2.074	2.042	2.011	1.981	1.952
4	3.630	3.546	3.465	3.387	3.312	3.240	3.170	3.102	3.037	2.974	2.914	2.855	2.798	2.743	2.690	2.639	2.589	2.540	2.494	2.448	2.404	2.362
5	4.452	4.329	4.212	4.100	3.993	3.890	3.791	3.696	3.605	3.517	3.433	3.352	3.274	3.199	3.127	3.058	2.991	2.926	2.864	2.803	2.745	2.689
6	5.242	5.076	4.917	4.767	4.623	4.486	4.355	4.231	4.111	3.998	3.889	3.784	3.685	3.589	3.498	3.410	3.326	3.245	3.167	3.092	3.020	2.951
7	6.002	5.786	5.582	5.389	5.206	5.033	4.868	4.712	4.564	4.423	4.288	4.160	4.039	3.922	3.812	3.706	3.605	3.508	3.416	3.327	3.242	3.161
8	6.733	6.463	6.210	5.971	5.747	5.535	5.335	5.146	4.968	4.799	4.639	4.487	4.344	4.207	4.078	3.954	3.837	3.726	3.619	3.518	3.421	3.329
9	7.435	7.108	6.802	6.515	6.247	5.995	5.759	5.537	5.328	5.132	4.946	4.772	4.607	4.451	4.303	4.163	4.031	3.905	3.786	3.673	3.566	3.463
10	8.111	7.722	7.360	7.024	6.710	6.418	6.145	5.889	5.650	5.426	5.216	5.019	4.833	4.659	4.494	4.339	4.192	4.054	3.923	3.799	3.682	3.571
11	8.760	8.306	7.887	7.499	7.139	6.805	6.495	6.207	5.938	5.687	5.453	5.234	5.029	4.836	4.656	4.486	4.327	4.177	4.035	3.902	3.776	3.656
12	9.385	8.863	8.384	7.943	7.536	7.161	6.814	6.492	6.194	5.918	5.660	5.421	5.197	4.988	4.793	4.611	4.439	4.278	4.127	3.985	3.851	3.725
13	9.986	9.394	8.853	8.358	7.904	7.487	7.103	6.750	6.424	6.122	5.842	5.583	5.342	5.118	4.910	4.715	4.533	4.362	4.203	4.053	3.912	3.780
14	10.563	9.899	9.295	8.745	8.244	7.786	7.367	6.982	6.628	6.302	6.002	5.724	5.468	5.229	5.008	4.802	4.611	4.432	4.265	4.108	3.962	3.824
15	11.118	10.380	9.712	9.108	8.559	8.061	7.606	7.191	6.811	6.462	6.142	5.847	5.575	5.324	5.092	4.876	4.675	4.489	4.315	4.153	4.001	3.859
16	11.652	10.838	10.106	9.447	8.851	8.313	7.824	7.379	6.974	6.604	6.265	5.954	5.668	5.405	5.162	4.938	4.730	4.536	4.357	4.189	4.033	3.887
17	12.166	11.274	10.477	9.763	9.122	8.544	8.022	7.549	7.120	6.729	6.373	6.047	5.749	5.475	5.222	4.990	4.775	4.576	4.391	4.219	4.059	3.910
18	12.659	11.690	10.828	10.059	9.372	8.756	8.201	7.702	7.250	6.840	6.467	6.128	5.818	5.534	5.273	5.033	4.812	4.608	4.419	4.243	4.080	3.928
19	13.134	12.085	11.158	10.336	9.604	8.950	8.365	7.839	7.366	6.938	6.550	6.198	5.877	5.584	5.316	5.070	4.843	4.635	4.442	4.263	4.097	3.942
20	13.590	12.462	11.470	10.594	9.818	9.129	8.514	7.963	7.469	7.025	6.623	6.259	5.929	5.628	5.353	5.101	4.870	4.657	4.460	4.279	4.110	3.954
21	14.029	12.821	11.764	10.836	10.017	9.292	8.649	8.075	7.562	7.102	6.687	6.312	5.973	5.665	5.384	5.127	4.891	4.675	4.476	4.292	4.121	3.963
22	14.451	13.163	12.042	11.061	10.201	9.442	8.772	8.176	7.645	7.170	6.743	6.359	6.011	5.696	5.410	5.149	4.909	4.690	4.488	4.302	4.130	3.970
23	14.857	13.489	12.303	11.272	10.371	9.580	8.883	8.266	7.718	7.230	6.792	6.399	6.044	5.723	5.432	5.167	4.925	4.703	4.499	4.311	4.137	3.976
24	15.247	13.799	12.550	11.469	10.529	9.707	8.985	8.348	7.784	7.283	6.835	6.434	6.073	5.746	5.451	5.182	4.937	4.713	4.507	4.318	4.143	3.981
25	15.622	14.094	12.783	11.654	10.675	9.823	9.077	8.422	7.843	7.330	6.873	6.464	6.097	5.766	5.467	5.195	4.948	4.721	4.514	4.323	4.147	3.985
26	15.983	14.375	13.003	11.826	10.810	9.929	9.161	8.488	7.896	7.372	6.906	6.491	6.118	5.783	5.480	5.206	4.956	4.728	4.520	4.328	4.151	3.988
27	16.330	14.643	13.211	11.987	10.935	10.027	9.237	8.548	7.943	7.409	6.935	6.514	6.136	5.798	5.492	5.215	4.964	4.734	4.524	4.332	4.154	3.990
28	16.663	14.898	13.406	12.137	11.051	10.116	9.307	8.602	7.984	7.441	6.961	6.534	6.152	5.810	5.502	5.223	4.970	4.739	4.528	4.335	4.157	3.992
29	16.984	15.141	13.591	12.278	11.158	10.198	9.370	8.650	8.022	7.470	6.983	6.551	6.166	5.820	5.510	5.229	4.975	4.743	4.531	4.337	4.159	3.994
30	17.292	15.372	13.765	12.409	11.258	10.274	9.427	8.694	8.055	7.496	7.003	6.566	6.177	5.829	5.517	5.235	4.979	4.746	4.534	4.339	4.160	3.995
40	19.793	17.159	15.046	13.332	11.925	10.757	9.779	8.951	8.244	7.634	7.105	6.642	6.233	5.871	5.548	5.258	4.997	4.760	4.544	4.347	4.166	3.999