EASTERN UNIVERSITY, SRI LANKA

FACULTY OF COMMERCE AND MANAGEMENT

DEPARTMENT OF COMMERCE

THIRD YEAR FIRST SEMESTER EXAMINATION IN BACHELOR OF COMMERCE-2002/2003

COM-3014 MANAGEMENT ACCOUNTING

ANSWER ALL QUESTIONS

NON-PROGRAMMABLE CALCULATOR PERMITTED **TIME:THREE HOURS**

01.

i. "Management accounting is concerned with accounting information which is useful to the management", Explain this statement.

ii. Describe the functions of a Management Accountant in an organization?

iii. Discuss the uses of a cash flow analysis?

iv. A machine is available for purchase at a cost Rs. 100 000. We expect it to have a life of four years and to have a scrap value of Rs. 20 000 at the end of the 4 year period. This is expected to produce the following profits. (Before depreciation)

Year	Rs
1	25 000
2	35 000
3	40 000
4	20 000

Calculate the Accounting Rate of Return?

v. You are required to calculate the gearing adjustment from the information given below.

	01-01-2002	31-12-2002
Bank overdraft	20 000	25 000
Cash	5 000	7 500
General reserve	10 000	15 000
Preference shares	40 000	50 000
Ordinary shares	37 500	50 000
Debentures	25 000	30 000
Cost of sale adjustment	-	5000
Monetary working capital adjustment	-	(3750)
Depreciation adjustment	-	1500

vi. Robin Ltd have Rs. 2 00 000 to invest and are trying to choose between one project (A) which returns Rs. 40 000 each year for five years, and another project (B) which returns Rs. 50 000 each year but only for four years. The firm still requires payback within three years. What project would be selected?

vii. What are the factors that determine the Working Capital requirement of a manufacturing organization?

viii. A company is considering whether or not to purchase an item of machinery costing Rs. 50 000 in 1998. It would have a life of four years, after which would be sold for Rs. 6000. The machinery would create annual cost savings of Rs.15 000, the rate of corporation tax will be 25%, capital allowance are 20% on the reducing balance and cost of capital is 8%. Should the machinery be purchased or not ?

ix. Company X produces a high volume product "M" and a low volume product "N". Both are produced on the same equipment and use similar process. Details are given below.

Product	Machine Hour (Per unit)	Direct Labour Hour (Per unit)	Actual output(Unit)	Total machine Hours	Total Direct Labour Hour	No of purchase order	No of set
M	3	6	80 000	160 000	60 000	100	[illegible]
N	3	6	9 600	19 200	6 000	60	[illegible]

The cost of activities are as follows.

Volume related activities	1075 200/=
Purchasing related activities	640 000/=
Setup related activities	120 000/=
	1835 200/=

Calculate the cost per unit using ABC (Activity based costing) system.

x. From the following information calculate the working capital leverage.

Particulars	Company X (Rs)	Company Y (Rs)
Fixed assets	300 000	200 000
Current assets	200 000	300 000
Total assets	500 000	500 000

Current assets decline by 20% over the existing level.

(Total 10x4 = 40 Marks)

02.

a. What is the impact of inflation on working capital requirement?

(05 Marks)

b. The following are the extracts from the balance sheet of a ABC Ltd, as on 31-03-2001. You are required to compute the additional working capital requirement of the company for the next year.

Balance Sheet (Extracts) as on 31-03-2001.

Particulars	Rs.	Rs.	Rs.
Fixed assets			
Land and building	500 000		
Plant and Machinery	300 000		800 000
Current Assets			
Stock	800 000		
Debtors	300 000		
Cash and Bank	200 000	1300 000	
(Less) **Current Liabilities**			
Creditors	340 000		
Taxation	80 000		
Bank overdraft	140 000		
Outstanding Liabilities	160 000	(720 000)	
Working capital			580 000
			1380 000

Additional information.

1. It is estimated that sales will increase by 25% next year.
2. Maximum amount of bank overdraft will be only Rs. 160 000.
3. There will be no increase in tax liability in the future.
4. Period of credit allowed to customers and the stock turnover will remain unaltered.
5. Period of credit allowed by creditors will also remain the same. Bills payable will remain at the same relative position.
6. There will be no increase in total amount of cash and bank balances.

(15 Marks)

03.

a. The assets of Stephen Ltd consists of fixed assets and current assets while its current liabilities comprise bank credit and trade credit. From the following figures pertaining to the company for the year 2001-2002. Prepare its balance sheet showing the details of working.

Share Capital	Rs. 199 500
Working capital (C.A- C.L)	Rs. 45 000
Gross margin	20%
Inventory turnover	6 times
Average collection period	2 months
Current ratio	1.5 times
Quick ratio	0.9 times
Reserves and surplus to cash	3 times
Fixed assets	Rs.195 000

(10 Marks)

b. Following are the summarized balance sheets of Hilton Ltd, as on 31st March, 2001 and 2002.

	2001 (Rs)	2002 (Rs)
Assets		
Land & Building	200 000	180 000
Machinery	140 000	160 000
stock	100 000	80 000
Debtors	70 000	58 400
Cash	35 500	36 000
Bank		7 200
Goodwill	-	10 000
	545 500	531 600
Liabilities		
Share capital	300 000	350 000
General reserve	40 000	50 000
Profit &Loss account	30 500	31 600
Bank Loan (Long term)	50 000	-
Creditors	100 000	70 000
Provision for taxation	25 000	30 000
	545 500	531 600

Additional informations

1. Depreciation written off on machinery is Rs. 10 000 and Building is Rs. 20 000.
2. Income tax provided during the year is Rs. 28 000; Rs 500/= loss on the sale of a machinery was written off against general reserve.
3. Machinery was further purchased for Rs. 10 000.
4. Dividend of Rs.30 000 was paid.
5. Assets of another company were purchased for a consideration of Rs. 50 000 payable in shares.

   The following assets were purchased

   Stock : Rs. 10 000

   Machinery : Rs. 30 000

You are required to prepare the statement of cash flow using the Indirect Method.

(15 Marks)

04. The Balance sheets of Anoma Trading Company Ltd ,as at 31st December 2001 and 31st December 2002 are as follows.

	31-12- 2002		31- 12- 2001	
	Rs	**Rs**	**Rs**	**Rs**
Fixed Assets				
Land & Building (at cost)		380 000		-
Machinery	400 000		400 000	
Accumulated depreciation	(120 000)	280 000	(80 000)	320 000
Motor vehicle	600 000		600 000	
Accumulated depreciation	(120 000)	480 000	(90 000)	510 000
		1140 000		830 000
Current assets				
Stock	360 000		340 000	
Trade debtors	100 000		80 000	
Cash	120 000		200 000	
	580 000		620 000	
Current Liabilities				
Trade creditors	160 000		140 000	
Tax	200 000		100 000	
Dividend	100 000		100 000	
	460 000	120 000	340 000	280 000
		1260 000		1110 000

Capital & Reserves

Share capital 1/= each	600 000		600 000	
Retained Profit	460 000		310 000	
Long Term debt	200 000	1260 000	200 000	1110 000

Profit And Loss Account for the year ended 31- 12- 2002.

		Rs	Rs
Sales		1400 000	
Cost of sales		870 000	
gross profit			530 000
Depreciation- Machinery		40 000	
	Motor vehicle	30 000	
	Interest	10 000	(80 000)
Net profit before tax			450 000
Tax			(200 000)
Net profit after tax			250 000
Dividend			(100 000)
Retained profit			150 000

Additional information

1. Depreciation is charged for the year on straight line basis @ 10% on machinery and 5% on motor vehicle.
2. Land and Building is purchased on 1-1-2002 and it is not depreciated.
3. Price index

	31-12-2002	31-12-2001
Land & building (purchase index-115)	155	125
Machinery (Purchase index-95)	115	100
Stock (Purchase index 155 for closing stock)	165	125
Trade debtors	140	100
Trade creditors	120	80

a. Prepare current cost profit & Loss Account

b. Current cost Balance sheet

(15 Marks)