EASTERN UNIVERSITY, SRI LANKA
FACULTY OF CMMERCE AND MANAGEMENT
PART II EXAMINATION IN BBA/COM 98/99 OCT/NOV 2000

COM 301 MANAGEMENT ACCOUNTING

Time: 03 Hours
Answer **All** questions

01. i. 'It has been found that a budgeting system is more likely to be successful when there are some conditions found' list 4 of those conditions.

(04 Marks)

ii. A firm has cost of Rs. 200,000, sales of Rs. 250,000 and an asset turnover of 4 what is the rate of return on asset?

(04 Marks)

iii. A company has 100 obsolete machine parts that are carried in inventory at a manufacturing cost of Rs.100,000. The parts can be,

a. Re-machined for Rs. 30,000 and then sold for Rs. 50,000 or

b. Scrapped for Rs. 5,000. Which should be done?

(04 Marks)

iv. The sales and profit of a company during two periods were as follows.

Period	Sales	Profit
I	100,000	10,000
II	150,000	20,000

a. Find out the Break-even point.

(02 Marks)

b. What amount of sales will generate a profit of Rs. 40,000?

(03 Marks)

c. What will be the profit if the sales are Rs. 120,000.

(03 Marks)
(Total 08 Marks)

v. Maria Joseph is a certified public accountant employed by a large accounting firm at Rs. 50,000 per year. She is considering to have her own independent practice. By opening the independent practice, She will earn Rs. 200,000 per year and it will cost an amount of Rs. 130,000/-. She usually pays a monthly rent of Rs. 20,000 for her boarding.

What do you consider about Maria's choice of opening the independent practice?

(04 Marks)

vi. What are the factors have to be considered before making a pricing decision?

(04 Marks)

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

	01.01.1990	31.12.1990
Debentures	25,000	30,000
Bank overdraft	15,000	20,000
Cash	2,500	5,000
General reserve	7,500	12,500
Preferences shares	30,000	40,000
Ordinary shares	37,500	50,000
Cost of sales adjustment		5,000
Monetary working capital adjustment		-3,750
Depreciation adjustment		1,250

(04 Marks)

viii. What is the importance of financial planning?

(04 Marks)

ix. A firm is considering purchasing a machine for Rs.37,386 using borrowing. The required finance can be arranged on 5% loan which should be repaid within 10 years as equal installments. Using the above information you are required to determine the annual loan repayment.

(04 Marks)

02. 'Predman considers that a Banking institution cannot survive without both profitability and liquidity'.

a. Do you agree with the opinion of Predman? Why?

b. What do you mean by profitability of an institution and how can you asses it?

c. What are the problems created by excess liquidity of an institution?

d. What are the benefits of inter-firm comparison of Ratio analysis?

(15 Marks)

03. Anoma Trading Company Limited starts a small business by issuing 100,000 ordinary shares for Rs. 5 each with premium of Rs. 2 and 15000 10% debentures for 12/- each. The company has decides use the available overdraft up to maximum limits of 75,000. If there is any more funds

required the firm will issue 10% Rs. 10 preference shares on par value.

Rs. 170,000 worth of fixed assets will be bought in the first year and it will be increased by 20% from the value of each year. Depreciation will be 15% on a straight line basis cost per unit sale is equal to Rs. 3/-. Selling price of one unit is Rs. 5/-.
The forecasted sales for the next periods will be as follows.

Year	**1**	**2**	**3**	**4**	**5**	**6**
Sale	Rs.100,000	Rs.100,000	Rs.120,000	Rs.140,000	Rs.180,000	Rs.200,000

Purchase is equal to cost of sales.
All purchase are on credit terms and will be paid after one year.
Selling expenses are expected to increase by 20% each year and at the end of 6^{th} year it will be equal to Rs. 24,883.
Corporation tax is expected to be 40% and it will be payable in the following year.

You are required to prepare the capital budget for the 1^{st} 6 years.

(20 Marks)

04. Pruthuvy Company Limited is considering to replace it's existing machine by a more efficient new machine It has two alternatives to solve this problem. The company can either modify it's existing machine or buy a new machine. The cost of production per unit is as follows.

	Modified old Machine Rs.	New Machine Rs.
Materials	50	32
Labour	55	24
Variable overheads	20	30
Fixed overheads	35	25
	160	111

For the old machine fixed overheads include allocations from depreciation on a straight-line basis. The old machine was bought 4 years ago for a cost of Rs.240,000 and has a book value of Rs.160,000 now, after being depreciated. It has a remaining life of 12 years. The present machinery could be modified at a cost of Rs.80,000. The supplier of the new machine has agreed to buy back the old machine at 65% of it's book value and the balance can be paid in two installments half of the amount now and half after a year. The cost of new machine is Rs.300,000.
Modifications would not affect the remaining useful life of the old machine or the salvage value of Rs.30,000 the machinery now has. The old machine now

has a capacity of producing 3500 units per year. After the modification it will be increased to 4000 units.

The new machine is capable of producing 4200 units each year. The company is confident of selling the additional units by reducing it's current price per unit Rs. 200 by 10%. The engineering department estimates that if the new machinery is purchased, raw material inventory will be increased by Rs.20,000. The new machinery has a life of 10 years.

Which alternative should be preferred where the cost of capital is 20%.

(25 Marks)