THE OPEN UNIVERSITY OF SRI LANKA
BACHELOR OF MANAGEMENT STUDIES – LEVEL 5
ASSIGNMENT TEST 2007
FINANCIAL MANAGMENT AND MANAGEMENT ACCOUNTING – MCU 3208
DURATION TWO (02) HOURS

DATE : 11TH AUGUST 2007 **TIME : 2.00 P.M. – 4.00 P.M.**

Answer any THREE questions
(Use of non programmable calculators are allowed)
All questions carry equal marks.

(1) Describe the different functions of Management Accounting.

(2) (i) "Costs may be classified in a variety of ways according to their nature". Explain this statement with examples.

(ii) The summarized income statement for X Ltd., for the last year is as follows.

		Rs.
Sales		1000,000
Variable Cost	600,000	
Fixed Cost	200,000	800,000
Pre-tax profit		200,000
Less taxes		70,000
Profit after tax		130,000

The company sells 2,000,000 units at Rs.0.50 (50 cents) each.

a) What is the break-even point in amount and units?

b) Suppose that the company expansion will increase its fixed cost by another Rs.100,000/= and this increases the capacity by 60%. After the expansion how many units would have to be sold to reach break-even point.

c) At what level of sales will the company be able to maintain its present pre-tax profit position even after expansion?

d) The company's management feels that it should earn at least Rs.20,000/= on the new investment. What sales volume is required to enable the company to maintain existing profits and earn the minimum required return on new investments?

e) Suppose the plant operates at full capacity after the expansion, what profit will be earned?

3) What is the difference between wealth maximization and profit maximization? Explain why the objective of wealth maximization is more important than the objective of profit maximization.

4) (i) Explain features of three main types of long-term sources of capital available to a public limited company.

(ii) A company's Earnings Per Share is Rs.10/-. Its Return on Equity (ROE) is 20% and it follows a policy of retaining 30% of earnings. Assume the required rate of return is 10%. You are required to calculate:

a) Dividend growth rate.
b) Expected dividend per share
c) Present value of the share