



THE OPEN UNIVERSITY OF SRI LANKA
BACHELOR OF MANAGEMENT STUDIES DEGREE PROGRAMME
LEVEL 5
FINAL EXAMINATION – 2007
FINANACIAL MANAGEMENT AND MANAGERIAL ACCOUNTING – MCU 3208
DURATION : THREE (03) HOURS

No. of Pages : 03

No. of Questions : 07

Date : 27.02.2007

Time : 9.30 a.m – 12.30 p.m

Answer Five questions as follows

Any two (2) from Part A

Any three (3) from Part B

Non-Programmable Calculators are allowed.

PART A

1. "Management Accounting plays a vital role in achieving organizational objectives". Discuss this statement elaborating characteristics and objectives of Management Accounting. (20 marks)

2. (i) What are the assumptions on which CVP analysis depends? (05 marks)

- (ii) Sri Lak Company Ltd., produces three products, P₁, P₂ and P₃. The results of the production for the year 2005, were as follows.

Product	Sales (Rs.)	Variable Cost (Rs.)
P ₁	25,000/=	10,000/=
P ₂	15,000/=	9,000/=
P ₃	10,000/=	12,500/=

Fixed cost were Rs. 11,000

You are required to,

- (a) Prepare a Marginal Cost Statement.
 (b) Draw a Profit Volume Graph
 (c) Calculate the BEP (Break-even point)

(15 marks)

3. (i) What factors should be considered when deciding whether to accept or reject a special orders ?

(05 marks)

- (ii) Piyasena & Company produces a small box for packing its own product. Cost of a box, is as follows.

Direct raw materials	Rs. 9.60
Direct Labour	Rs. 14.00
Variable Cost	Rs. 6.40
Fixed Cost	Rs. 20.00

Company produces 40,000 boxes per year.

Aruna company makes an offer to supply 40,000 boxes per year at rate of Rs.47/=. If Piyasena & Company accepts this offer, the facilities now being used to produce the boxes could be rented out to another company at an annual rental of Rs.300,000/=. However Piyasena & Company determines that Rs. 20/= of the fixed overhead being applied to a product of a box, would continue even if this offer is accepted. Piyasena & Company seeks your advice on whether to accept or reject this offer? Justify your advise with necessary calculations.

(15 marks)

PART - B

- (4) (i) "The finance manager should take account of the time value of money in order to make a correct financial decision" Explain. (07 Marks)
- (ii) As a financial consultant, will you advice your client to have term deposits in a commercial bank which pays 12% interest compounded semi-annually or 12% interest compounded annually? Why? (05 Marks)
- (iii) ABC Ltd., is planning to establish a sinking fund to retire its Rs.500,000 debentures that matures after 10 years. The company plans to put a fixed amount into the fund at the end of each year for 10 years. The company anticipates that the fund will earn 8% a year. To accumulate Rs.500,000 at the end of 10th year, find the equal annual contribution that must be made. (08 Marks)
- (5) i) The Gordon model for the share valuation is based on certain assumptions. Briefly explain them. (06 Marks)
- ii) The current dividend, D_0 , of the equity share of Alpha Corporation Ltd., is Rs.3.35 per share. Its dividends are expected to grow at 12% for four years and then at a rate of 6% forever. The required rate of return is 12%. You are required to calculate the present value of the share. (14 Marks)

- (6) An investor is considering investing in two securities, A and B. The risk and return characteristics of the two securities are, as follows;

	A	B
Expected return	30%	10%
Risk(Standard Deviation)	12%	3%

The investor plans to invest 60% of his funds in security A and 40% in security B.

Required,

- i) Calculate the expected returns for the proposed portfolio. (05 Marks)
 - ii) If the correlation coefficient between the returns on two securities is -1, calculate the risk of the portfolio. (07 Marks)
 - iii) Comment on your calculations in (ii) above, in the context of the risk reducing effects of diversification. (08 Marks)
- (7) Write short notes on following.
- i) Required rate of return
 - ii) Wealth maximization objective
 - iii) Weighted average cost of capital
 - iv) Agency relationship
 - v) Interest rate risk of bonds (Debentures)

(20 Marks)

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