



THE OPEN UNIVERSITY OF SRI LANKA
BACHELOR OF MANAGEMENT STUDIES DEGREE (BMS) PROGRAMME
LEVEL 5
FINAL EXAMINATION 2009
FINANCIAL MANAGEMENT AND MANAGERIAL ACCOUNTING - MCU 3208

DURATION: THREE (03) HOURS

DATE : 14.03.2009

TIME : 1.30 pm – 4.30 pm

- Instructions:** (I) Answer only **FIVE (05)** Questions selecting any **TWO (02)** from Part A and any **THREE (03)** from part B.
(II) Use of a non-programmable calculator is allowed.

PART – A

01. “In the present complex economic world, Management Accounting has become an integral part of the management.” Discuss this statement with suitable examples. (20 Marks)
02. a) “CVP analysis is important as a short term planning and decision making technique.” Do you agree with this statement? Explain. (04 Marks)
- b) ABC company is manufacturing three products A,B and C. You are given the following budgeted data for a month.

	A	B	C
Selling price per unit (Rs.)	250/-	150/-	100/-
Material cost per unit (Rs.)	100/-	80/-	60/-
Labour cost per unit (Rs.)	40/-	25/-	10/-
Variable Overhead cost per unit	10/-	7/-	05/-
Production volume (in units)	1000	500	300

Total fixed cost is estimated as Rs. 1000, 000/-.

- (i) Using the contribution approach prepare a monthly income statement for ABC company. (05 Marks)
- (ii) Calculate the Profit Volume ratios for three products. (03 Marks)
- (iii) Compute Break Even Point in rupees for the manufacturer. (04 Marks)
- (iv) If the company halt manufacturing of product B and C, the production capacity of product A increase by 50%. Then the selling price will be increased by 10%. Further the variable overhead cost will be increased by 20% while all other remain unchanged. You are required to calculate Break Even Point and the profit at new capacity level. (04 Marks)

03. a) "Limiting factor depends on the situation." Explain this statement by using examples. (05 Marks)

b) 'Sara' company produces three products P1, P2 and P3. Following information are available for three products.

	P1	P2	P3
Selling Price per unit (Rs)	3500/-	4200/-	3000/-
Variable cost per unit (Rs)	2200/-	2700/-	2100/-
Sales demand per week (units)	500	350	300
Required machine hours (per unit)	5	6	4

Due to a power cut in the plant area in next week number of machine hours is limited to 5500.

(i) Which production mix would you recommend if the company work on next week? (05 Marks)

(ii) Compute the total contribution in this production mix. (05 Marks)

c) "In marginal costing, an order can merely be accepted, if the quoted price is above the marginal cost." Do you agree with this statement? Explain. (05 Marks)

PART - B

04. a) Explain why profit maximization can not be considered as an ideal objective of the firm. (10 Marks)

b) Discuss the importance of Dividend decision in financial Management. (10 Marks)

05. a) Returns on stock A and B have the following distribution.

Market condition	Probability of Occurring	Rate of Return (%)	
		Stock A	Stock B
Unfavorable	0.1	(40)	(60)
Below average	0.2	(10)	(25)
Average	0.4	12	15
Above average	0.2	25	40
Favorable	0.1	50	75

- (i) Calculate expected returns on stock A and B. (02 Marks)
- (ii) Calculate the standard deviations of two stocks. (04 Marks)
- (iii) If you are selecting one of the two stocks what stock would you select? Explain the reasons for your answer. (03 Marks)
- (iv) What is the expected return on a portfolio made up of 40% of the stock A and 60% of the stock B? (03 Marks)
- (v) Briefly explain efficient portfolio with an aid of a graph. (03 Marks)
- b) Explain what is risk of return and measures known to you to calculate risk. Can any of these measures be used in analyzing alternative investments? Explain your answer. (05 marks)
06. a) CS company is expected to pay Rs. 5 per share dividend at the end of the year. The dividend is expected to grow at a constant rate of 6 percent a year. The required rate of return on the stock is 15 percent. What is the value per share of the company's stock? (03 Marks)
- b) Suppose CS company's stock currently sells for Rs. 80 a share and the stock just paid a dividend of Rs. 10 per share. And, the dividend is expected to grow at a constant rate of 12 percent a year, what stock price is expected 1 year from now? What is the required rate of return on the company's stock? (04 Marks)
- c) Consider the information given in above (b) and assume that the shareholders tax is 35% and the brokerage commission is 4%. What would be the cost of retained earnings of CS company? (03 Marks)
- d) Suppose you were offered a 12 years, 10% debenture of Rs. 90. The debenture is expected to be sold at par. What would be the cost of debt if the tax rate is 30%? (04 Marks)
- e) "The use of long term debt by Sri Lankan companies is less". Discuss. (06 Marks)
07. a) Explain why operating cycle is expressed as the connection between investment and cash flows. (05 Marks)
- b) Why is it important to maintain a balance between the liquidity and profitability? Explain your answer with examples. (05 Marks)

- c) 'Sahara' company produces plastic tables and is preparing the budget for the next year. Following is the estimated cost structure of the table production.

	Per unit cost (Rs.)
Raw materials	1000
Direct Labour	400
Overheads	200

Company marks the selling price by adding a 30% on the cost of a table. Further, following particulars are given.

- Raw materials are in stock half a month.
- Materials are in process half a month
- Lag in payment for labours is one month
- Lag in payment for overheads is one month
- Finished goods are in stock for one month
- Credit allowed by suppliers is two and half months
- Credit allowed to debtors is two months

The company expects to produce 25000 tables for the next year and 30% of which are sold on credit. Rs. 100 000/- is expected to be in bank. You are required to calculate the working capital requirement of the company for the next year.

(10 Marks)

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