



THE OPEN UNIVERSITY OF SRI LANKA
BACHELOR OF MANAGEMENT STUDIES – LEVEL 05
ASSIGNMENT TEST - 2011
FINANCIAL MANAGEMENT AND MANAGEMENT ACCOUNTING - MCU 3208
DURATION - TWO (02) HOURS

Date: 19th June 2011

Time: 2.00pm - 4.00pm

INSTRUCTIONS:

Answer any THREE Questions

Use of non Programmable calculators are allowed

All questions carry equal marks

1. Briefly explain the functions of management accounting.
2. BETA (Pvt) Ltd Produces 5000 articles for home consumption at following costs.

	Rs.	Rs.
Materials (Pre unit RS. 10/-)		50000/-
Labor(Pre unit RS. 6/-)		30000/-
Factory Overheads:-		
Fixed	30000/-	
Variable	<u>10000/-</u>	40000/-
Fixed Administration cost		28000/-
Selling and distribution:-		
Fixed	15000/-	
Variable	<u>10000/-</u>	25000/-
Total		<u>173000/-</u>

In local market, the company sell all 5000 units at a price of Rs. 40/- each, in addition to this BETA has received a foreign order for 3000 units at CIF (Cost, Insurance, Freight) price of Rs.22/- each. If this export order is executed, the following additional costs will have to be incurred.

Special packing chargers Re. 1/= per unit.

Freight & Insurance chargers Rs. 2/= per unit.

The following export benefits should also be considered.

Duty drawback on material costs at 10%.

Cash subsidy 10% on FOB (Free On Board) value.

Should the company accept or reject the foreign order? Explain using necessary calculations.

3. (i) Explain how diversification can reduce the risk of investment.
- (ii) Securities X and Y have the following characteristics.

Probability	Return X (%)	Return Y (%)
0.10	-10	-5
0.20	5	6
0.30	10	14
0.40	25	22

You are required to calculate,

- (a) Expected return and standard deviation of return for each security.
- (b) The expected return and standard deviation of the return for the portfolio X and Y, combined with equal weights. Assume ($Cor_{xy} = 0.70$)
4. Write short notes on followings.
- Objective of share holders' wealth maximization.
 - Agency problems.
 - Investment Decisions.
 - Time preference for money.
 - Concept of valuation of securities.

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