

THE OPEN UNIVERSITY OF SRI LANKA
BACHELOR OF MANAGEMENT STUDIES – LEVEL 5
ASSIGNMENT TEST 2012
FINANCIAL MANAGEMENT AND MANAGEMENT ACCOUNTING – MCU 3208
DURATION TWO (02) HOURS



DATE: 25th November 2012

TIME: 2.00 pm – 4.00 pm

Answer any THREE questions.

All questions carry equal marks.

(Use of non programmable calculators are allowed)

- (1) a. “Management Accounting is accounting for effective management” Discuss.
b. “Management Accounting is not governed by generally accepted accounting principles and standards” Do you agree? Explain.
c. Compare and contrast Cost Accounting and Management accounting.
- (2) a. What is Cost Volume Profit (CVP) analysis? How useful is this analysis for managers in making sound business decisions?
b. What is meant by Margin of Safety? Explain.
c. The global PLC manufactured and sold 1200 items in the year 2011 at a price of Rs. 800/= each. The unit manufacturing cost at normal capacity is as follows.

	Rs.
Direct Materials	200.00
Direct Labour	100.00
Other Variable cost	50.00
Fixed Overhead	200.00
Total Cost	550.00

You are required to Calculate:

- i. Profit Volume P/V Ratio
ii. Brake Even Point in amount and units
iii. Margin of Safety

During the last year the company has been working at 60% capacity. The Marketing Manager has projected that the demand would be doubled in the year 2012, if the company can reduce the selling price from Rs. 800/= to Rs. 750/=. No change is anticipated in unit variable cost but fixed Factory Overhead cost would be increased by Rs. 100,000/=

- iv. Should the Marketing Manager's Proposal be accepted? Show the computations.
- v. Calculate the number of items that would have to be sold at the new price to ensure the same amount of total profit as at the last year.

(3) (i) Explain some of the problems the firms face in making Profit Maximization as their main objective. How does "Shareholders Wealth Maximization objective deal with these problems? Explain.

(4) (i) How are the risk and return of an investment measured? Explain the relationship between risk and return.

(ii) "Risk can be reduced through diversification" Do you agree with this statement. Explain.

(iii) Omega Ltd. is considering an investment in one of two shares. The following information are provided for the two shares.

Sheet A		Sheet B	
Probability	return (1%)	Probability	return (1%)
0.3	11	0.1	4
0.4	15	0.3	6
0.3	19	0.4	10
		0.2	15

Based on risk and return of two shares, show which investment should be accepted?

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