



THE OPEN UNIVERSITY OF SRI LANKA
BACHELOR OF MANAGEMENT STUDIES DEGREE PROGRAMME – LEVEL 5
ASSIGNMENT TEST – 2013/2014
MCU 3208 – FINANCIAL MANAGEMENT AND MANAGEMENT ACCOUNTING
DURATION – TWO (02) HOURS

DATE : 28.09.2013

TIME: 10.00AM – 12.00 NOON

INSTRUCTIONS

- *Answer only THREE (03) questions.*
- *Candidates will be penalized for illegible hand writing.*
- *Non programmable calculators are allowed.*

- (1) Discuss the importance of Management Accounting as a tool of management decision making.
- (2) i) Define the word “cost” in the context of management accounting.
ii) Distinguish between fixed cost and variable cost.
iii) EXE plc makes four components C1, C2, C3 and C4 for which costs in the next year are expected to be as follows.

	C1	C2	C3	C4
Production Units	2000	4000	8000	6000
Variable Cost (Rs. per unit)	28	34	14	24
Directly attributable fixed cost (Rs.)	2000	10000	12000	26000

A sub contractor has offered to supply units of C1, C2, C3 and C4 for Rs.24/-, 42/-, 20/- and 28/- respectively.

- (a) Show whether, EXE PLC should make or buy the components. using necessary calculations.
- (b) Other than cost what matters should be considered in making the above decision?
- (3) What are the basic financial decisions (functions)? Explain each of these decisions (functions.)

- (4)
- i) Briefly explain the following ;
 - a) Average return
 - b) Expected return
 - c) Port-folio return
 - ii) Explain how diversification can reduce the risk of portfolio of assets below the weighted average of the risk of the individual assets.
 - iii) The expected returns data for two securities X and Y is given below.

Probability	Return X (%)	Return Y (%)
0.2	-5.0	2.0
0.2	10.0	7.0
0.3	11.5	12.0
0.2	20.0	15.0
0.1	40.0	16.0

- a) What is the expected return for security X and security Y?
- b) What is the standard deviation of expected returns for security X and security Y?
- c) Which stock would you consider to be riskier? Why?

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