00174

THE OPEN UNIVERSITY OF SRI LANKA
BACHELOR OF MANAGEMENT STUDIES DEGREE PROGRAMME
LEVEL 05
FINAL EXAMINATION – 2015
FINANCIAL MANAGEMENT AND MANAGERIAL ACCOUNTING – MCU3208
DURATION: THREE (03) HOURS

No. of Pages: 04
No. of Questions: 07

Date: 5th July, 2015	**Time: 9.30 am – 12.30 pm**

Answer five (5) Questions selecting as follows.
Any two (2) questions from part A.
Any three (3) questions from part B.

Use of a non – programmable calculator is allowed.

PART A

(1) What are the functions of Management Accounting? Explain them briefly. (20 Marks)

(2) i. What do you mean by limiting factor? (02 Marks)

ii. "Limiting factor depends on the situation". Explain. (04 Marks)

iii. The following particulars are extracted from the record of a company.

	Product A (Per unit)	Product B (Per unit)
Selling price (Rs.)	100	120
Consumption of raw materials (Kg)	2	3
Direct Wages Cost (Rs.)	15	10
Direct Expenses(Rs.)	5	6
Overhead Expenses		
Fixed (Rs.)	5	10
Variable (Rs,)	15	20

Raw material cost per Kg is Rs. 5/=. Assume raw materials as the limiting factor, availability of which is 10,000 Kg per month. If maximum sales potential of each product is 3,500 units per month, find out the product mix which will maximize the company profit. Also, determine the profit that will be earned at the above product mix. (07 Marks)

iv. A manufacturing company is considering replacing its old machine with a new machine which will reduce the variable operating costs. The old machine was purchased three years ago for Rs. 360,000/=. Depreciation based on a useful life of six years with no salvage values has been recorded each year. The new machine will cost Rs. 300,000/=, and will have an expected life of three years with no scrap value. The variable operating costs are Rs.3.50 per unit of output for the old machine and Rs.2/- per unit for the new machine. It is expected that both machines will be operated at their maximum capacity of 25,000 units per annum. The old machine can be sold for Rs.200, 000/- at present. Should the company replace the new machine or not? Provide relevant calculations. (07Marks)

(3) i. What is meant by Cost Volume Profit (CVP) analysis? (03 Marks)

ii. "As a short term planning and decision making techniques, CVP analysis has several advantages for an organization". Explain these advantages briefly? (5 Marks)

iii. Mr. Asela opened his restaurant last year. Restaurant equipment is leased at cost of Rs. 25,000/= per month. Monthly rent is Rs. 210,000 including utilities. Cleaning, cooking and serving staff are all full time employees and the total wage bill for employees is Rs.180,000/= per month. Mr. Asela has no basic salary and his earnings are the profits of the restaurant. The average bill is Rs. 260/- per customer and the average variable cost for a meal and beverages is Rs. 125/- per customer. For the last month there were 3,365 customers.

You are required to:

a) Prepare a contribution format income statement for the last month. (02 Marks)

b) Calculate the break-even point, in Rupees of sales and number of customers served. (04 Marks)

c) Calculate the number of customers the restaurant would have to serve in order for the owners to earn a profit of Rs.45,000/- per month as his own compensation. (02 Marks)

d) Mr. Asela is considering reducing the meal prices to attract more customers. Variable costs would remain the same, but the average bill would fall to 210/- per customer. The lower price is expected to increase the number of customers to 4,250 per month. How would the proposed price reduction affect the break-even-point and the expected income? Should Mr. Asela lower the meal prices? Justify with relevant calculations (04 Marks)

PART B

4) i. What is meant by 'Financial Management'? Explain its importance for business organizations. (08 Marks)

ii. "Every manager has to take four major decisions when performing the finance function". Explain this statement. (12 Marks)

5) i. "Most investors are risk averse" Discuss. (04 Marks)

ii. An equity share costing Rs.100/- pays no dividends. The possible prices that the share might sell for at year end and, the respective probability are as follows:

Year end Price (Rs)	Probability
90.00	0.1
100.00	0.2
105.00	0.4
110.00	0.2
120.00	0.1

a) What is the expected return of the share? (02 Marks)
b) What is the standard deviation of the share? (03 Marks)

iii. 'Stock A' and 'Stock B' have the following historical returns.

Year	Stock A's Return (%)	Stock B's Return (%)
2010	-18.00	-14.5
2011	33.00	21.8
2012	15.00	30.5
2013	-0.50	-7.6
2014	27.00	26.3

a) Calculate the average rate of return for each stock during the period 2010 – 2014. (02 Marks)
b) Calculate the risk of returns for each stock. (04 Marks)
c) Calculate the coefficient of variation for each stock (02 Marks)
d) If you are a risk averse investor, would you prefer to hold Stock A or Stock B? Why? (03 Marks)

6) i. What is the concept of operating cycle? Why is this concept important in working capital management? (03 Marks)

ii. Highlight the differences between permanent and temporary working capital. (05 Marks)

iii A proforma cost sheet of a company provides the following data.

	Costs per unit (Rs.)	
Raw Material	40	
Direct Labour	15	
Overheads	30	
Total cost		85
Profit		15
Selling Price		100

The following additional information are available.

- Average raw material in stock - one month.
- Average materials in process - half a month.
- Finished goods in stock - one month.
- Credit allowed by suppliers - one month.
- Credit allowed to debtors - two months.
- Time lag in payment of wages - one and half month.
- Time lag in payment of overheads - one month.

One fourth of the sales are on cash basis. Cash balance is expected to be Rs. 50,000/= .

You are required to prepare a statement showing the working capital needed to finance a level of activity of 104,000 units of production. (12 Marks)

7) i) What is the cost of capital? (4 Marks)

ii) Describe how cost of capital is used to make financial decisions? (4 Marks)

iii) XYZ Ltd. had the following capital structure as at 31st March 2014, which is considered to be optimum.

	Amount (Rs.)
16% Debentures	300,000
11% Preference Shares	100,000
Equity (100,000 shares)	1,600,000
	2,000,000

The company's equity share has a current market price of 23.40 per share. The expected dividend per share next year is 50% of the 2014 Earning Per Share (EPS). The following are the EPS figures for the company during the preceding five years. The past trends are expected to continue. Growth can be based on the earnings growth (i.e. EPS) rate.

Year	2010	2011	2012	2013	2014
EPS	1.60	1.76	1.94	2.13	2.34

The company's debenture is currently selling at Rs. 96/-. The preference shares can be sold at a net price of Rs. 9.20. The company's marginal tax rate is 40%.

You are required to compute the following.

a) After tax cost of debt. (02 Marks)

b) Cost of preference capital (02 Marks)

c) Cost of equity capital (05 Marks)

d) Weighted average cost of capital (03 Marks)