

THE OPEN UNIVERSITY OF SRI LANKA  
BACHELOR OF MANAGEMENT STUDIES DEGREE PROGRAMME – LEVEL 05  
ASSIGNMENT TEST – 2016/ 17  
FINANCIAL MANAGEMENT AND MANAGERIAL ACCOUNTING – MCU3208  
DURATION – TWO (02) HOURS



DATE : 21-01-2017

TIME : 10.00a.m. – 12.00 noon

*Answer any three (03) questions only.  
Non programmable calculators are allowed.  
All questions carry equal marks.*

(1) Describe the purpose and functions of management accounting within an organization.

(2) (1) What are the assumptions of Cost Volume Profit (CVP) analysis.

(II) Suraj Corporation Ltd. has prepared the following budget estimates for the year 2016/2017.

	Rs.
Selling price	100/=
Variable Cost	
Direct material	30/=
Direct Labour	20/=
Variable overhead	10/=

Fixed costs are estimated at Rs. 340,000/= for the year and the company expects to sell 15,000 units during the year.

- i. Calculate Sales Contribution (C/S) ratio, Break Even Point (BEP) in units and Margin of Safety
- ii. Calculate the revised C/S ratios, BEPs and Margin of Safety in relation to each of the following cases;
  - (a) Increase of 10% in direct material costs and direct labour costs.
  - (b) Decrease of 10% in selling price.
  - (c) Increase of Rs. 60,000/- in fixed costs.

- (3) (I) Using example explain how diversification reduce the risk of investment.  
(II) Stock A and Stock B have the following historical returns

	<u>A's return (%)</u>	<u>B's return (%)</u>
2011	9	-6
2012	16	13
2013	8	8
2014	-2	15
2015	14	20

- (i) Calculate the average rate of return for each stock during the period 2011 - 2015.  
(ii) Calculate the standard deviation of returns for each stock.  
(iii) Calculate the coefficient of variation for each stock.  
(iv) If you are a risk averse investor, would you prefer to hold stock A or stock B? Why? Explain.
- (4) Briefly explain the following:
- (i) Time value of money.  
(ii) Agency problems.  
(iii) Investment decisions.  
(iv) Objective of wealth maximization.