

THE OPEN UNIVERSITY OF SRI LANKA  
MASTER OF BUSINESS ADMINISTRATION IN HUMAN RESOURCE  
MANAGEMENT 2010-2012  
FINAL EXAMINATION 2012 – JANUARY  
MCP2132- MANAGERIAL FINANCE  
DURATION – 03 HOURS

00023



Date: 12<sup>th</sup> February 2012

Time: from 1.30 p.m. to 4.30 p.m.

*Instructions: Answer any five (05) questions. Numbering of the answers in your answer script should follow the numbers assigned to the questions in the paper. Illegible hand writing is liable to lose marks.*

**Question No. 01**

- (i) Differentiate among the terms Financial Accounting, Cost Accounting and Management Accounting. (04 Marks)
- (ii) Define and explain the following cost concepts giving a relevant example for each:  
a. Opportunity cost  
b. Sunk Cost  
c. Marginal cost. (06 Marks)
- (iii) A Manager of a company has provided you with the following information relevant to a vehicle they expect to purchase.

Cost information	Rs.'000
Maintenance cost at every six months	20
Annual license fees	10
Annual insurance fees	70

Cost of one litre of diesel is Rs.80 and the vehicle can run 10 kilo meters for each litre of diesel consumed.

**Required:**

- a. Prepare a table to be presented to the higher management, showing clearly the following costs for 10,000 km, 20,000 km and 30,000 km per annum covered respectively.  
i. total variable cost  
ii. total fixed cost  
iii. total cost (06 Marks)
- b. "A manager is of the view that the vehicle is becoming more economical with increase of distance covered." Do you agree with the manager's view? Justify. (04 Marks)

(Total 20 Marks)

**Question No. 02**

- (i) Explain the contribution of budgets in the strategy formulation and implementation process. **(05 Marks)**
- (ii) The following estimated information relates to Vishva Limited for the year 2012/2013.

Month & Year	Sales (Rs.)	Materials Purchased (Rs.)	Wages (Rs.)	Overheads	
				Production (Rs.)	Administration Selling & Distribution (Rs.)
September 2012	12,000	7,200	2,600	900	640
October 2012	13,000	8,000	3,000	900	640
November 2012	14,000	8,000	3,000	1,000	700
December 2012	15,000	9,000	3,000	1,200	700
January 2013	16,000	9,200	3,200	1,200	800
February 2013	17,000	10,000	3,600	1,400	800
March 2013	18,000	10,400	4,000	1,400	900

**Additional Information:**

- A three month credit period has been granted to debtors. Only 10% of sales are in cash. On average, 50% of credit sales are settled on the due date while the balance is settled in the following month.
- A two month credit period has been received from the materials suppliers (creditors).
- Wages are paid with one month in arrears.
- 50% of overhead expenditure of a month are paid in the same month and the balance is settled in the following month.
- Cash and bank balance on 1<sup>st</sup> January 2013 is expected to be Rs. 14,000
- Other information:

Plant and machinery to be purchased in November at a cost of Rs. 96,000 and the price will be paid in monthly installments of Rs. 2,000 each from 1<sup>st</sup> January, 2013.

Dividends from investments amounting to Rs. 500 are expected to be received on 31<sup>st</sup> March, 2013.

Income Tax of Rs. 2,000 is to be paid in March, 2013.

Using the above information you are required to prepare the Cash Budget for the three months, ending 31<sup>st</sup> March 2013. **(15 marks)**

**(Total 20 marks)**

**Question No. 03**

- (i) Divya Inc. produces and sells the finest quality stainless steel spoons. The company expects the following revenues and costs in 2012 for its quality spoon sets:

Revenues (400 sets to be sold @ Rs. 600 per set)	Rs. 240,000
Variable costs	Rs. 160,000
Fixed costs	Rs. 50,000

How many sets of spoons must be sold to reach their breakeven point?

- a. How many sets of spoons must be sold to earn a target operating income of Rs. 90,000?
- b. What amount of sales must Divya, Inc. record to earn a target net income of Rs. 63,000 if the tax rate is 30%? **(10 Marks)**
- (ii) A Company is producing four products and planning its production mix for the next period. Estimated cost, sales and production data are given below.

Product	W (Rs)	X (Rs)	Y (Rs)	Z (Rs)
Selling price per unit	200	300	400	360
Labour (Rs. 20 per hour)	60	40	140	100
Material (Rs. 10 per kg)	60	180	100	120
Maximum demand (units)	5,000	5,000	5,000	5,000

Based on the above data, what is the most appropriate product mix for the period if:

- a. Labour hours are limited to 50,000
- b. Materials are limited to 110,000 Kg **(10 Marks)**

**(Total 20 Marks)**

**Question No. 04**

- (i) "Cash flows are more reliable than profits when measuring the performance of an organization."  
Discuss the above statement **(10 Marks)**
- (ii) A company which commenced its business with a capital of Rs. 1 million and a bank loan has made a net cash decrease of Rs. 50,000 at the end of first year of operations. The accountant noted that the business has earned a profit of Rs. 800,000. The owner wonders why there is no adequate cash with a substantial profit record. Account balances at the end of the first year are given below.

	Dr.	Cr.
Non-current assets	600,000	
Provision for depreciation		50,000
Inventories	200,000	
Account receivable	350,000	
Cash	950,000	
Bank loan		200,000
Accounts payable		50,000
Capital		1,000,000
Profit		800,000

**Required**

Prepare a report with calculations and explanations to justify the net cash decrease at the end of the year based on the above scenario.

(10 Marks)

(Total 20 Marks)

**Question No. 05**

“Balance sheet of an organization is no longer a historical document but rather explains the capacity of an organization to generate future economic benefits at a given point in time.”

**Critically evaluate** the above statement

(05 Marks)

The following information of an entity which commenced its business a few years ago with an investment of Rs. 150,000 relates to the year ended 31<sup>st</sup> March 2011.

Particulars	Rs
Sales for the year	800,000
Purchases of goods for sale	300,000
Value of stocks at the beginning of the year	150,000
Value of stocks at the end of the year	180,000
Carrying amount of motor vehicle at 31st March 2011	300,000
Depreciation for the year	60,000
Expenses paid in cash	225,000
Expenses committed for the period but not paid in cash yet	75,000
Drawings of cash by the owner	70,000
Accounts receivables as at 31st March 2011	200,000
Cash	120,000
Bank loan	260,000

**Required**Income statement for the year ended 31<sup>st</sup> March 2011Balance sheet as at 31<sup>st</sup> March 2011

Comment on changes in equity of the business over the time with focus on its profitability

(15 Marks)

(Total 20 Marks)

**Question No. 06**

“General purpose financial statements show how best the management of an organization has used its resources provided by owners and lenders to achieve its objectives.”

**Explain** whether you agree with the above statement.

(05 Marks)

The following information relates to a company for the years ended 31<sup>st</sup> March.

	2011	2010	2009	2008
Profit margin %	12.0	10.0	8.0	8.0
Total asset turnover ratio (times)	1.3	1.8	2	2.3
Return on total assets %	15.6	18.0	16.0	18.4
Current ratio (times)	2.5	1.9	2.1	2.0
Quick asset ratio (times)	0.9	0.8	0.8	0.9
Debt to equity ratio %	40	30	30	25
Debt collection period (days)	56	50	36	28
Creditors payment period (days)	18	15	18	15
Inventory holding period (days)	50	37	28	20

**Required to**

- Compute the Cash cycle for the years 2008, 2009, 2010 and 2011
- Compute the operating cycle for the year 2011
- Comment on the operating efficiency of the company
- Comment on the liquidity position of the company
- Comment on the profitability of the company

(15 Marks)

(Total 20 Marks)