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**University of Sri Jayewardenepura**  
**2011 - B.Sc. Business Administration (General) External - Part I Examination**  
**May 2014**  
**BME 1505: Accounting for Managers**

This paper consists of two parts. Answer any **five** questions selecting at least two questions from each part.

Time allowed: **3 hours**

**Part I**

**Question No.01**

- I. Briefly explain the following concepts.
    - i. The entity concept
    - ii. The going concern concept
    - iii. The periodicity concept

(03 Marks)
  - II. Define the **three** elements directly related to the Statement of Financial Position (Balance Sheet) as per the IASB Conceptual Framework for Financial Reporting.
 

(03 Marks)
  - III. Name the qualitative characteristic applicable for following situations as per the IASB Conceptual Framework for Financial Reporting.
    - i. Use of same accounting policies from accounting period to period.
    - ii. Revaluation of assets to reflect their market values.
    - iii. Ability to take decisions based on present financial information.

(03 Marks)
  - IV. State the main components of the 'Regulatory Framework for Financial Reporting in Sri Lanka'.
 

(03 Marks)
  - V. Define the term 'Inventory' as per the relevant Sri Lanka Accounting Standard.
 

(02 Marks)
  - VI. Define the term 'Property, Plant and Equipment' as per the relevant Sri Lanka Accounting Standard.
 

(02 Marks)
  - VII. Name the **two** categories of events identified in the accounting standard on 'Events after the Reporting Period' with an example for each category.
 

(04 Marks)
- (Total 20 Marks)**

**Question No.02**

The transactions taken place in Dineth's business during April 2014 and information for the same month are given below.

I

Date	Transaction
02.04.2014	Cash sales Rs.100,000.
12.04.2014	Goods worth Rs.110,000 was purchased from Sama and 10% of this was allowed as a trade discount.
13.04.2014	Goods worth Rs.410,000 was sold to Nayana on credit and the trade discount of Rs.10,000 was allowed.
14.04.2014	Furniture worth Rs.260,000 was purchased on credit from AB Company.
15.04.2014	Goods purchased for the resale from Sandamali on credit was Rs.92,000.
17.04.2014	Credit sales of goods to Athula was Rs.300,000.
22.04.2014	The amount payable to Sama was settled subject to a cash discount of 5%.
24.04.2014	The total amount receivable from Nayana was settled subject to a cash discount of Rs.8,000.
28.04.2014	The monthly rent of Rs.20,000 was paid.
29.04.2014	A cheque of Rs.60,000 sent by Ranga, a trade debtor, was deposited in the bank.

- II. All the transactions were effected through a current account in the bank and the balance of the account as at 01.04.2014 was Rs.40,000.
- III. As per the bank statement received on 01.05.2014, the bank charges for April 2014 were Rs.1,000.
- I. The cheque issued for the monthly rent has not been presented for the payment and the cheque received from Ranga has not been realized.

**Required;**

- i. Record the transactions stated in I above in relevant prime entry books. (10 Marks)
- ii. Post all these transaction to the relevant ledger accounts and balance them. (06 Marks)
- iii. Prepare the bank reconciliation statement for the month of April, 2014. (04 Marks)
- (Total Marks 20)**

**Question No.03**

The trial balance extracted from the books of Tara Ltd as at 31.03.2014 is as follows:

	<b>Debit Rs.'000</b>	<b>Credit Rs.'000</b>
Sales		10,000
Purchases	2,000	
Inventory as at 01.04.2013	200	
Distribution cost	1,300	
Administration expenses	800	
Other expenses	100	
Income tax payment	260	
Provision for income tax - 2012/2013		40
Cash and cash equivalents	20	
Motor vehicle sales account		1,200
Dividends payments	180	
Trade debtors/ Trade creditors	410	300
Provision for doubtful debts (as at 01.04.2013)		12
Land	2,400	
Motor vehicles	8,800	
Provision for a depreciation of motor vehicles (as at 01.04.2013)		3,200
Stated ordinary share capital (as at 01.04.2013)		1,500
Retained earnings (as at 01.04.2013)		218
	<b>16,470</b>	<b>16,470</b>

The following additional information is also provided.

- I. The cost of the inventory as at 31.03.2014 was Rs.320,000 and the net realizable value of the inventory at the same date has been estimated as Rs.300,000.
- II. A motor vehicle purchased on 01.10.2010 for Rs.2,800,000 has been sold for Rs.1,200,000 on 01.04.2013. No entry has been passed in the ledger except crediting the sale proceeds to motor vehicle sales account.
- III. Rs.10,000 should be written off as bad debts from the year end trade debtors and the provision for doubtful debts should be 5% from the year end trade debtors.
- IV. A part of the land worth of Rs.400,000 has been donated to the government on 01.10.2013. But this has not been recorded in the accounts.
- V. Motor vehicles are to be depreciated at 20% per annum on cost on straight line basis.
- VI. Following expenses are payable as at 31.03.2014.
  - Office building rent                      Rs.240,000
  - Auditors' fees                              Rs.60,000
  - Directors' remuneration                Rs.80,000
- VII. Out of the income tax paid, Rs.50,000 relates to the year 2012/2013. The income tax liability of the final quarter of the year 2013/2014 has been estimated as Rs.90,000.

**Required;**

For the publication:

- i. Income statement for the year ending 31.03.2014 together with the relevant notes.  
(09 Marks)
  - ii. The statement financial position (Balance sheet) as at 31.03.2014, together with the notes and required disclosures.  
(08 Marks)
  - iii. The statement of changes in equity for the year ending 31.03.2014.  
(03 Marks)
- (Total Marks 20)**

## Part II

**Question 04**

- I.
  - i. Define clearly the terms Financial Accounting, Management Accounting and Cost Accounting.
  - ii. State **three** distinct ways in which Financial Accounting differ from Management Accounting.  
(06 marks)
- II. Comment on the following statements.
  - i. All direct costs are variable costs
  - ii. Sunk Costs are irrelevant for decision making
  - iii. Variable Costs are controllable and fixed costs are not controllable  
(06 Marks)
- III. A manufacturing company uses material type PQ in their production process. The monthly demand for PQ has been estimated as 6,000 units. The cost of placing an order for PQ is Rs.3, 200. The annual cost of holding per unit of PQ is Rs. 5.00.

The maximum usage of PQ per day is 50 units while there is an average usage of 40 units. The maximum reorder period is 30 days while the average is 25 days.

**Required:**

- i. Economic Order Quantity (EOQ)
  - ii. Reorder level
  - iii. Maximum inventory level
  - iv. Minimum inventory level
  - v. Average stock level  
(05 marks)
- IV. Identify **three** types of costs associated with labour turnover in a company.  
(03 marks)
- (Total 20 Marks)**

**Question 05**

- I. Compare and contrast the *Activity Based Costing (ABC)* method with the *traditional overhead absorption costing method*.  
(04 marks)
- II. XYZ Company produces three products X, Y, & Z for which relevant information for a given period is as follows.

	X	Y	Z
Quantity produced	10,000	20,000	30,000
Direct materials per unit (Rs)	50	40	30
Direct labour per unit (Rs.)	30	40	50
No. of purchase requisitions	1200	1800	2000
No. of set-ups	240	260	300

Production overhead cost for the period amounts to Rs.2,600,000 which consists of Rs.1,400,000 for receiving & inspecting and Rs.1, 200,000 for production scheduling & machine set-up.

**Required:**

A product cost statement using Activity Based Costing.

(04 Marks)

- III. A firm uses job costing to meet special orders from individual customers. Relevant information for the period is given below.

	Job A Rs	Job B Rs	Job C Rs
Open WIP	31,400	50,700	-
Materials added	16,200	-	19,750
Labour	15,000	5,500	27,250

Budgeted overhead cost for the period was Rs. 137,500.

**Required:**

- The overhead cost to be assigned to job C.
- The selling price if Job B was completed in the period and the firm expects to earn a 50% profit on the selling price.
- The value of the closing working progress.

(12 marks)

**(Total 20 marks)**

**Question 06**

- I. State **Four** limitations of Cost Volume Profit Analysis (CVP Analysis) (04 marks)
- II. Kasun Company Ltd is a manufacturing firm, which produces a single product. The following information has been provided.

The sales and profits for previous two years are as follows:

	Sales (Rs.)	profit (Rs.)
2012	150,000	20,000
2013	170,000	25,000

**Required:**

- i. Profit Volume Ratio (P / V Ratio)
- ii. Fixed cost of the firm.
- iii. Break - even point
- iv. Sales required to earn a profit of Rs 40,000
- v. Margin of safety at a profit of Rs 250,000
- vi. Total profit when sales are at Rs. 100,000

(06 marks)

- III. Haris Ltd manufactures a special kind of paper plate for a restaurant. The selling price per plate is Rs.16 and the variable cost is Rs.9. Annual fixed cost is Rs.32,000 and budgeted sales are 9,000 plates. The company contemplates to introduce a new production method. This would result in increased fixed costs of 30% on the current cost and a reduction in variable cost of Rs.1.50 per plate. The new production method will result in a premium product allowing the price to be raised to Rs.18 per plate. If the company decides to implement the new methods;

**Required:**

- i. The level of production required to achieve the current level of profit.
- ii. The margin of safety as a % of budgeted sales under the new production method.
- iii. The level of budgeted sales required to achieve a target profit of Rs.60,000.

(10 marks)

**(Total 20 marks)**

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