



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA3 EXAMINATION - AUGUST 2023

(AA32) MANAGEMENT ACCOUNTING AND FINANCE

Instructions to candidates (Please Read carefully):

- (1) Time Allowed: Reading: 15 minutes Writing: 03 hours
- (2) All questions should be answered.
- (3) Answers should be in one language, in the medium applied for, in the booklets provided.
- (4) Submit all workings and calculations. State clearly assumptions made by you, if any.
- (5) Use of Non-programmable calculators is only permitted.
- (6) Action Verb Check List with definitions is attached. Each question will begin with an action verb. Candidates should answer the questions based on the definition of the verb given in the Action Verb Check List.
- (7) Mathematical Tables will be provided.
- (8) 100 Marks.

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Subjects and 1st/2nd Merit Prize Winner

SECTION A
(Total 20 marks)
Question 01

It is to ensure that the entity is able to continue its operations & that it has sufficient cash flow to satisfy both maturing short term debt & upcoming operational expenses. The following information relating to **ABC Ltd.** is provided for the last three financial years

Item	2022/23	2021/22	2020/21
Trade Receivables (Rs.)	2,918,000	3,795,000	4,907,200
Cost of Sales (Rs.)	19,000,000	21,600,000	23,000,000
Gross Profit Ratio	5%	10%	8%

- Assume 365 days a year and all sales are on credit basis.

You are required to:

- a) Calculate the trade receivables collection period for 2020/23 and 2020/22. (03 marks)
- b) Strategies that **ABC Ltd.** can use to improve its receivables collection period.

(02 marks)
 (Total 05 marks)

You are required to:

Calculate the following for the year 2024:

- | | |
|--------------------------------------|------------|
| (a) Profit volume ratio. | (02 marks) |
| (b) Break-Even Point (BEP) in units. | (02 marks) |
| (c) Margin of safety in units. | (01 mark) |
| (Total 05 marks) | |

End of Section A

SECTION B
(Total 30 marks)

Question 05

HCP PLC is a listed company with the following capital structure as at 31st March 20123:

Item	Book Value (Rs.)	Market Value (Rs.)	No. of Shares / Debentures
Ordinary Shares	200,000,000	500,000,000	20,000,000
12% Irre/ Debentures	800,000,000	800,000,000	8,000,000
Irre/Preference Shares	100,000,000	200,000,000	10,000,000

The following additional information is also provided:

- (1) A dividend of Rs.4.5/- per ordinary share was paid for the year just ended and dividends are expected to grow at the rate of 4% per annum.
- (2) Annual dividend for preference shares is Rs.1.40 per share.
- (3) The company pays income tax at the rate of 30% per annum.

You are required to:

- | | |
|--|-------------------------|
| (a) Calculate the following: | |
| (i) Cost of Ordinary Shares. | (02 marks) |
| (ii) Cost of Irredeemable Debentures. | (02 marks) |
| (iii) Cost of Irredeemable Preference Shares. | (02 marks) |
| (iv) Weighted Average Cost of Capital using market values. | (04 marks) |
| | (Total 10 marks) |

Question 06

- (A) POPE Ltd. manufactures Product X using two materials. The following information has been extracted from the standard cost card:

Description	Rs. Per Unit
Direct Material A – (2 kg @ Rs.400/- per kg)	800
Direct Material B – (3 kg @ Rs.150/- per kg)	450

During the month of June 2023, POPE Ltd. manufactured and sold 10,000 units of X for which 22,000 kg of Direct Material A and 28,000 kg of Direct Material B were used.

You are required to: Calculate the Direct Material Mix Variance. (05 marks)

- (B) Imat (Pvt) Ltd., manufactures product X in one of its plants and sells to the market. Imat uses the standard costing system and absorbs overheads on the basis of direct labour hours based on the budgeted production of 2,000 units per month. Budgeted sales for the month are 2,000 units at Rs.12,000/- per unit.

Standard cost card per unit of product X is as follows:

Rs. Direct material – (10 kg @ Rs.400/- per kg)	4,000
Direct labour (4 hours @ Rs.150/- per hour)	600
Variable overhead (4 hours @ Rs.100/- per hour)	400
Fixed production overhead (4 hours @ Rs.200/- per hour)	800
Total Cost	5,800

The actual results recorded for the month of June 2022 are as follows:

- Production and sales 1,800 units
- Selling price per unit Rs.13,000/-
- Direct material – 18,800 kg @ Rs.550/- per kg
- Direct labour -6,100 hours @ Rs.200/- per hour
- Variable overheads Rs.960,000/-
- Fixed production overheads absorbed Rs.1,600,000/-

You are required to

Calculate the following variances for the month of June 2022.

- (i) Sales price variance.
- (ii) Sales volume variance.
- (iii) Direct material price variance.
- (iv) Direct material usage variance.
- (v) Direct labour rate variance.

(05 marks)

End of Section B

SECTION C
(Total 50 marks)

Question 07

GP PLC produces and sells a branded product. The following productions and sales forecasts for the month of June, July, August and September 2023 were extracted from the records of the company:

	June	July	August	September
Purchases (in units)	8,000	12,000	15,000	13,000
Sales (in units)	9,000	10,000	14,000	13,000

The following additional information is also provided:

- (1) Purchase price per unit is Rs.75/- up to 30th June 2023 and it is expected to increase to Rs.80/- with effect from 01st July 2023.
- (2) All the purchases are made on credit basis and payments will be made in the following month.
- (3) 60% of the sales are on cash basis and balance will be collected in the following month.

Selling price per unit is Rs.120/-.

- (4) Total administration and distribution expenses for the month have been estimated to be Rs.480,000/- and it will be paid in the same month.
- (5) The company intends to obtain a bank loan of Rs.1,000,000/- during the month of August 2023 to be settled in monthly installments of Rs.60,000/- each for a period of 2 years. First installment will be paid on 01st September 2023.
- (6) Cash balance as at 30th June 2019 would be Rs.125,000/-. You are required to: Prepare the cash budget of GP PLC for the quarter ending 30th September 2023 on monthly basis. (10 marks)

End of Section C



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