ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL III EXAMINATION - JULY 2025

(302) MANAGEMENT ACCOUNTING AND FINANCE

27-07-2025
Morning
[08.45 – 12.00]

No. of Pages : 09
No. of Questions : 10

- **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.*

SECTION A

(Total 20 marks)

Question 01

Tech Lanka Ltd., is selling an innovative product in the local market. The below information has been extracted from the financial statements of **Tech Lanka Ltd.**:

(Rs.'000)

For the Year ended 31st March	**2025**	**2024**
Sales	52,400	42,670
Cost of Sales	40,000	31,500
As at 31st March	**2025**	**2024**
Inventory	5,750	3,690
Trade Receivables	15,004	10,148
Trade Payables	10,675	6,925

All sales and 80% of purchases are made on credit basis.

You are required to:

Calculate the Working Capital Cycle (in days) for the year ended 31st March 2025.

(05 marks)

Question 02

Sam Ltd. manufactures and sells **Product S**. The management accounts are prepared using the Marginal Costing Method and the following information has been extracted from the standard cost card of the **Product S**.

	Per Unit (Rs.)
Direct Material (0.5 litres at Rs.2,500/- per litre)	1,250
Direct Labour (1.5 hours at Rs.1,000/- per hour)	1,500
Variable Production Overheads	625

The below information relates to the quarter ended 30th June 2025:

Fixed Overheads	**Budgeted (Rs.)**	**Actual (Rs.)**
Production	15,525,000	16,600,000
Non Production	8,000,000	9,350,000
	23,525,000	**25,950,000**

	Budgeted (in units)	**Actual (in units)**
Production	30,000	31,200
Sales	30,000	29,700
Opening Inventory	-	2,000
Closing Inventory	-	3,500

Actual / budgeted Selling Price per unit is Rs.4,400/-.

You are required to:

Prepare the Income Statement for the quarter ended 30th June 2025 using the Marginal Costing method. (05 marks)

Question 03

Rix Ltd., is considering shutting down one of its business units due to the loss making situation.

The following information is provided with regard to this unit:

	Rs.
Sales	22,400,000
Variable Production Costs	(9,600,000)
Fixed Production Costs	(5,750,000)
	7,050,000
Variable Selling and Distribution Expenses	(2,240,000)
Fixed Non Production Expenses	(9,900,000)
Loss	**(5,090,000)**

The fixed production costs include machinery depreciation of Rs.3,200,000/- and this machinery can be disposed for Rs.8,000,000/- when the shutting down decision is taken. Balance of fixed production costs can be saved with shutting down decision. Apart from this, 60% of the fixed non production costs can be saved in the event of a shut down and a compensation of Rs.5,000,000/- needs to be paid to the staff.

It is estimated that no further costs can be saved due to a shutdown of this business unit.

You are required to:

Assess whether **Rix Ltd.** should shut down the business unit *(Support your answer with calculations)*. (05 marks)

Question 04

Leo Ltd., manufactures **Product LX 250** and is planning to do a special sales promotion over the months of August, September and October 2025 to increase the market share.

The sales forecast for July 2025 is 22,000 units and it is 5.5% of the market share. With the sales promotion, the market share of August, September and October 2025 is expected to increase to 5.8%, 6.0% and 6.2% respectively. The market size is expected to remain constant over the next few months.

The closing inventory as at the end of July 2025 is forecasted to be 4,200 units and going forward the company expects to maintain a stock at the end of each month, equivalent to 12 days of the next month's sales.

(Assume number of days per month is 30 and same number of units are moving per day.)

You are required to:

Prepare the production budget for the months of August and September 2025 in units.

(05 marks)

End of Section A

SECTION B

(Total 30 marks)

Question 05

Jams Ltd. produces and sells jams using seasonal fruits. The below information is extracted from the standard cost cards of three products:

	Rs. (per bottle)		
	Jam 1	**Jam 2**	**Jam 3**
Selling Price	1,300	1,600	1,900
Fruit **A** (Rs.500/- per kg)	250	400	250
Fruit **B** (Rs.800/- per kg)	400	320	480
Other Direct Raw Material	150	180	200
Direct Labour	90	120	120
Variable Production Overheads	18	24	24
Budgeted Sales per Month (in bottles)	3,000	6,000	4,000

Due to a shortage of fruits, the suppliers have informed **Jams Ltd.** that they will only be able to supply maximum of 9,000 kg of **Fruit A** and 5,900 kg of **Fruit B** for the month of August 2025.

You are required to:

(a) **Identify** the limiting factor/s with supporting calculations. (03 marks)

(b) **Calculate** the optimal production mix based on the identified limiting factor/s. (05 marks)

(c) The procurement department has found another supplier who can supply **Fruit A** at Rs.700/- per kg and **Fruit B** at Rs.1,000/- per kg.

Explain whether **Jams Ltd.** should purchase any shortfall at these prices or not. (02 marks)

(Total 10 marks)

Question 06

Star PLC is a company listed in the Colombo Stock Exchange and the following information is extracted from the financial statements of **Star PLC**:

(1) **Star PLC** has 15 million ordinary voting shares in issue, which is trading at a market price of Rs.14/- per share. The company paid a dividend of Rs.2.10 per share for the last financial year. The dividends are expected to grow by 5% per annum.

(2) The company has 2 million listed irredeemable preference shares in issue which were initially issued at Rs.25/- per share. These shares are currently trading at Rs.30/- per share. Annual dividend per share is Rs.3.75.

(3) **Star PLC** issued 1.2 million redeemable debentures with a coupon rate of 12% per annum, at Rs.100/- per debenture. The current market price of a debenture is Rs.95/- and the redemption will happen in 3 years.

(Assume the income tax rate as 30%)

You are required to:

Calculate the following:

(a) Cost of Ordinary Shares. (02 marks)

(b) Cost of Irredeemable Preference Shares. (02 marks)

(c) Cost of Redeemable Debentures. (03 marks)

(d) Weighted Average Cost of Capital (WACC) using the market value. (03 marks)

(Total 10 marks)

Question 07

Spark & Stich Ltd. manufactures and sells kids clothes. The following information is available with regard to operations of the company:

(1) Sales are made with a 60 days credit period and budgeted sales are as follows:

	May-2025	Jun-2025	Jul-2025	Aug-2025	Sep-2025	Oct-2025	Nov-2025
Sales (Rs.)	5,200,000	4,800,000	4,500,000	5,000,000	4,750,000	4,000,000	6,000,000

(2) The raw material cost is 40% of the sales value and the raw material is purchased by **Spark & Stich Ltd.** one month in advance of the sales. For the raw material purchases, 25% is paid in cash at the time of purchase and the balance is settled in 60 days from the date of purchase.

(3) The manufacturing is done on an outsourced method in the month of sales. That cost is 30% of the sales value and is settled in 30 days after manufacturing.

(4) A delivery cost of 5% of the sales value is incurred in the month of sales.

(5) The staff salaries per month are Rs.800,000/- and arrears payment on salary of Rs.560,000/- is to be paid in August 2025.

(6) The other fixed expenses are estimated to be Rs.400,000/- per month and are paid in the subsequent month.

(7) The opening cash balance as at 01st July 2025 is expected to be Rs.1,500,000/-.

(8) Excess cash will be held in a savings account earning an interest of 4% per annum. Interest is computed based on the opening balance as at the beginning of the month.

You are required to:

Prepare the cash budget for the months of July, August and September 2025. (10 marks)

End of Section B

SECTION C

(Total 50 marks)

Question 08

Kelly Ltd. is evaluating the possibility of launching of a new product to the local market. This will require the purchase of a high-tech machinery.

The new machinery is expected to cost Rs.25,000,000/- with a 5 year useful life. Capital allowances can be claimed at 25% per annum for tax purposes and depreciation is calculated on the straight-line basis at cost for accounting purpose. There is no scrap value for this machinery at the end of useful life. The working capital investment for this is Rs.4,000,000/- and assumed to be recoverable at the end of 5th year.

The following additional information is available with regard to the new product:

(1) The sales units and selling price over the next 5 years are assumed to be as follows;

Year	No. of Units	Price per Unit (Rs.)
1	380,000	95
2	400,000	100
3	500,000	120
4	720,000	120
5	600,000	120

(2) The variable production cost per unit is Rs.60/- in year 1 and thereafter, variable cost is expected to be increased in line with inflation of 10% per annum.

(3) Fixed overheads including depreciation are estimated to be Rs.8,000,000/- per annum.

(4) Selling and Distribution costs are estimated to be 5% of sales value.

(5) The product launch is expected to cost Rs.3,000,000/- at the start-up of the project.

(6) The company pays income taxes at the rate of 30% per annum and it should be paid in the same year.

(7) The cost of capital of the company is 20%.

You are required to:

(a) **Calculate** the Net Present Value (NPV) of the new product. (13 marks)

(b) **Identify** whether the company should proceed with the new product. (02 marks)
(Total 15 marks)

Question 09

ABC Ltd., manufactures and sells **Product Q**. The following information has been extracted from the standard cost card:

	Rs. (Per Unit)
Direct Material:	
Material 1B (1 meter at Rs.500/- per meter)	500
Material 2B (3 meters at Rs.300/- per meter)	900
Direct Labour (at Rs.1,200/- per hour)	600
Variable Overheads (at Rs.250/- per hour)	125
Total Variable Cost	**2,125**
Selling Price	4,000
Contribution	**1,875**

For the month of June 2025, the company had budgeted to sell 4,000 units and the budgeted fixed overheads for a month is Rs.5,200,000/-.

Actual production / sales quantity for the month of June 2025 was 4,600 units and actual performance is given below:

	Rs.
Sales (4,600 units)	17,480,000
Direct Material:	
Material 1B (4,720 meters)	2,265,600
Material 2B (13,400 meters)	4,046,800
Direct Labour (2,490 hours)	2,938,200
Variable Overheads	632,460
Fixed Overheads	5,103,000

The following variances have been calculated by the management for the month of June 2025:

	Rs.	
Sales Margin Volume Variance	1,125,000	Favourable
Sales Price Variance	920,000	Adverse
Fixed Overhead Expenditure Variance	97,000	Favourable
Direct Labour Efficiency Variance	228,000	Adverse
Variable Overhead Expenditure Variance	9,960	Adverse
Variable Overhead Efficiency Variance	47,500	Adverse

You are required to:

(a) **Calculate** the following variances:

(i) Direct Material Price Variance. (02 marks)

(ii) Direct Material Mix Variance. (03 marks)

(iii) Direct Material Yield Variance. (03 marks)

(iv) Direct Labour Rate Variance. (02 marks)

(b) **Prepare** an operating statement to reconcile the budgeted contribution with actual contribution. (05 marks)

(Total 15 marks)

Question 10

(A) **RTX Ltd.** is a manufacturing company and uses several processes for manufacturing of **Product Y**. The inputs to **Process I** during the month of June 2025 were as follows:

	Rs.
Raw Material (28,000 kg)	3,706,050
Direct Labour	1,476,000
Variable Production Overheads	361,590

At beginning of June 2025, there were 4,600 kilograms of opening work-in-progress in stock with the following levels of completion:

Raw Material	100% complete, valued at Rs.657,350/-
Direct Labour	60% complete, valued at Rs.156,960/-
Variable Production Overheads	40% complete, valued at Rs.46,090/-

At the end of June 2025, there were 3,200 kilograms of closing work-in-progress, which had the following levels of completion:

Raw Material	100%
Direct Labour	70%
Variable Production Overheads	35%

At the end of the month, 26,500 kilograms were transferred to **Process II**.

The normal loss is 5% from the input materials and the scrap value of the normal loss units are Rs.175/- per kilogram.

You are required to:

(a) **Prepare** the Statement of Equivalent Units and Cost. (06 marks)

(b) **Prepare** the **Process I** account. (08 marks)

(B) **LKN Ltd.** produces and sells two products namely **Product P** and **Product Q**. The standard cost of the two products are estimated to be as follows:

	Product P (Per Unit Rs.)	**Product Q (Per Unit Rs.)**
Selling Price	4,500	5,400
Direct Material	(1,400)	(1,600)
Direct Labour	(1,000)	(1,400)
Variable Overheads	(600)	(500)

The budgeted sales / production units for the month of August 2025 are 24,000 units and 36,000 units of **Product P** and **Product Q** respectively. The budgeted fixed overhead amounts to Rs.9,600,000/- for the month of August 2025.

You are required to:

Calculate break-even sales (in Rs.) for **Product P** and **Product Q** separately. (06 marks)

(Total 20 marks)

End of Section C

ACTION VERBS CHECK LIST

Level of Competency	Description	Action Verbs	Verb Definitions
Knowledge (1)	Recall Facts and Basic Concepts.	**Draw**	Produce a picture or diagram.
		Relate	Establish logical or causal connections.
		State	Express details definitely or clearly.
		Identify	Recognize, establish or select after consideration.
		List	Write the connected items.

Level of Competency	Description	Action Verbs	Verb Definitions
Comprehension (2)	Explain & Elucidates Ideas and Information.	**Recognize**	Show validity or otherwise, using knowledge or contextual experience.
		Interpret	Translate into understandable or familiar terms.
		Describe	Write and communicate the key features.
		Explain	Make a clear description in detail using relevant facts.
		Define	Give the exact nature, scope or meaning.

Level of Competency	Description	Action Verbs	Verb Definitions
Application (3)	Use and Adapt Knowledge in New Situations.	**Reconcile**	Make consistent / compatible with another.
		Graph	Represent by graphs.
		Assess	Determine the value, nature, ability or quality.
		Solve	Find solutions through calculations and/or explanation.
		Prepare	Make or get ready for a particular purpose.
		Demonstrate	Prove or exhibit with examples.
		Calculate	Ascertain or reckon with mathematical computation.
		Apply	Put to practical use.

Level of Competency	Description	Action Verbs	Verb Definitions
Analysis (4)	Draw Connections Among Ideas and Solve Problems.	**Communicate**	Share or exchange information.
		Outline	Make a summary of significant features.
		Contrast	Examine to show differences.
		Compare	Examine to discover similarities.
		Discuss	Examine in detail by arguments.
		Differentiate	Constitute a difference that distinguishes something.
		Analyze	Examine in details to find the solution or outcome.