Association of Accounting Technicians of Sri Lanka

Level III Examination – January 2026

Suggested Answers

(302) MANAGEMENT ACCOUNTING AND FINANCE (MAF)

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

Level III Examination - January 2025

(302) MANAGEMENT ACCOUNTING AND FINANCE

SUGGESTED ANSWERS

Four (04) Compulsory Questions
(Total 20 Marks)

SECTION - A

Suggested Answers to Question One:

Chapter 1 - Introduction to the Management Accounting, Relevant Cost and Decision Making under risk and uncertainty

(a)

$$\text{BEP} = \frac{\text{Fixed cost}}{\text{Contribution per unit}}$$

$$\text{BEP} = \frac{4,200,250}{3000-(1200+950+320)}$$

$$\text{BEP} = \frac{}{7,925 \text{ Units}}$$

(03 marks)

(b)

Target contribution	30,000*Rs.530	15,900,000
(-) Specific fixed cost		(4,200,250)
Budgeted profit		11,699,750

(02 marks)
(Total 05 marks)

Suggested Answers to Question Two:

Chapter 7 - Working Capital Management

		2025
Inventory residence period	1	29
Trade receivables collection period	2	58
		87
(-) Trade payables residence period		(64)
Length of working capital cycle	3	23

Working Capital Cycle = 23 days

Inventory residence period = Average inventory / Cost of sales x 365

= (1,172 + 906)/2 / 13,000 x 365

= 1,039 / 13,000 x 365

= 29.17

= 29 Days

Note 02 - Payables residence period

Payables residence period = Average payables / Credit Purchase x 365

= (2,570+2,110)/2 / 13,266 x 365

= 2,340 / 13,266 X 365

= 64.38

= 64 Days

Note 03 - Trade receivables residence period

Trade receivables residence period = Average receivables / Sales x 365

= (3,550+3,266)/2 / 21,300 x 365

= 3,408 / 21,300 x 365

= 58.4

= 58 Days

Calculation of credit purchases

Cost of sales	=	13,000
(+) Closing stock	=	1,172
(-) Opening stock	=	(906)
Purchases	=	13,266

(Total 05 marks)

Suggested Answers to Question Three:

Chapter 3 - Different Types of Budgets and Planning & Controlling Vs Budgeting

(a)

Feedback control is defined as the measurement of differences between planned outputs and actual outputs achieved and the modification of subsequent action and/or plans to achieve future required results.

Feedforward control is defined as the forecasting of differences between the actual and planned outcomes and the implementation of actions before the event, to prevent such differences**.** ***(03 marks)***

(b)

- Top-Down Budgeting
- Bottom-Up Budgeting
- Rolling budget
- Activity-based budget
- Incremental budget
- Zero-based budget
- Financial budget

(02 marks)
(Total 05 marks)

Suggested Answers to Question Four:

Chapter 1 - Introduction to the Management Accounting, Relevant Cost and Decision Making under risk and uncertainty

				Rs.
Sales				80,000,000
(-) Relevant cost				
Human Resource	No.of Hours* Standard Hourly Rate			
Software Developers	Relevant cost =	2,880*24,000 =	69,120,000	
Business Analyst	Not a relevant cost since free time available		-	
Testers	150Hrs is not a relevant cost since it is idle	(224-150) *15,000	1,110,000	
Project Manager	Not a relevant cost since free time available		-	
Cost of Licensing	Incremental cost		6,000,000	
Other Overhead Cost	Incremental cost		1,000,000	
Total Relevant Cost				(77,230,000)
Estimated Profit				**2,770,000**

This short term project should be accepted since it makes incremental profit of Rs.2,770,000/-.

(Total 05 marks)

End of Section A

Suggested Answers to Question Five:

Chapter 3 - Different Types of Budgets and Planning & Controlling Vs Budgeting

Cash Budget	**Jan-26**	**Feb-26**	**Mar-26**
Receipts			
Cash Sale W1	6,400,000	3,200,000	4,400,000
Collection of Credit Sale W2	12,240,000	9,600,000	4,800,000
Interest Income	7,833	18,043	26,436
Total receipt	**18,647,833**	**12,818,043**	**9,226,436**
Payments			
Material Cost	6,720,000	3,360,000	4,620,000
Labour Cost	1,680,000	840,000	1,155,000
Other Variable OH	3,185,000	2,100,000	1,662,500
Fixed Staff Salary Cost	4,000,000	4,000,000	4,000,000
Staff Bonus	-	-	3,500,000
Total payments	**15,585,000**	**10,300,000**	**14,937,500**
Net cash flows	3,062,833	2,518,043	(5,711,064)
Balance at beginning of the month	2,350,000	5,412,833	7,930,876
Balance at end of the month	5,412,833	7,930,876	2,219,812

W1 - Cash Sale	**Dec-25**	**Jan-26**	**Feb-26**	**Mar-26**
Total Sale	20,400,000	16,000,000	8,000,000	11,000,000
Cash Sale Ratio	40%	40%	40%	40%
Cash Sale	8,160,000	6,400,000	3,200,000	4,400,000

W2 - Collection of credit sale	**Dec-25**	**Jan-26**	**Feb-26**	**Mar-26**
Total Sale	20,400,000	16,000,000	8,000,000	11,000,000
60% Credit Sale Collection		12,240,000	9,600,000	4,800,000

W3 - Calculate Material, Labour and Overhead payment	**Dec-25**	**Jan-26**	**Feb-26**	**Mar-26**
Sales	20,400,000	16,000,000	8,000,000	11,000,000
Variable Cost 70%	14,280,000	11,200,000	5,600,000	7,700,000
Material Cost 60%	8,568,000	6,720,000	3,360,000	4,620,000
Labour Cost 15%	2,142,000	1,680,000	840,000	1,155,000

Other Variable OH 25%	3,570,000	2,800,000	1,400,000	1,925,000
Cash payment	1,785,000	1,400,000	700,000	962,500
Credit payment		1,785,000	1,400,000	700,000
OVOH Payments		3,185,000	2,100,000	1,662,500

(Total 10 marks)

Suggested Answers to Question Six:

Chapter 1 - Introduction to the Management Accounting, Relevant Cost and Decision Making under risk and uncertainty

(a)

Direct Labour - Skilled

Product	**Demand**	**Skilled Labour (Hrs)**	**Total Requirement**
P	10,000	0.25 200/800	2,500
Q	8,000	0.5 400/800	4,000
R	15,000	1 800/800	15,000
Total Required Skilled Labour Hrs			21,500
Available Skilled Labour Hrs			23,000
Excess			**(1,500)**

Direct Labour - Unskilled

Product	**Demand**	**Unskilled Labour (Hrs)**	**Total Requirement**
P	10,000	0.75 450/600	7,500
Q	8,000	1 600/600	8,000
R	15,000	2 1200/600	30,000
Total Required unskilled labour hrs			45,500
Available unskilled labour hrs			40,000
Shortage			**5,500**

(04 marks)

(b)

	P	Q	R
Selling Price (Rs.)	2,400	5,000	6,000
(-) Variable Cost			
Direct Material	(1,000)	(1,800)	(2,000)
Direct Labour - Skilled	(200)	(400)	(800)
Direct Labour - Unskilled	(450)	(600)	(1,200)
Variable Production OH	(300)	(450)	(900)
Contribution	450	1,750	1,100
Unskilled Labour Hrs	0.75	1	2
Contribution - Unskilled Labour Hrs	600	1,750	550
Ranking	**2**	**1**	**3**

Product Mix

Product	Production Plan	Unskilled Labour Hrs	Total
Q	8,000	1	8,000
P	10,000	0.75	7,500
R	12,250	2	24,500
			40,000

(06 marks)
(Total 10 marks)

Suggested Answers to Question Seven:

Chapter 5 - Sources of Capital and Cost of Capital

(a)

$$K_e = \frac{D_0\ (1+g)}{P_0} + g$$

$$= \frac{25(1+0.1)}{125} + 0.1$$

$$= \frac{27.5}{125} + 0.1$$

$$= 32\%$$

(02 marks)

(b)

$$Kp = \frac{D_0}{P_0} = \frac{9.60}{64.00} = 15\%$$

(02 marks)

(c)

Year	Description	CF	DF @ 12%	DCF	DCF 10%	DCF
0	Issue of Debentures	97	1	97	1	97
1-4	Interest [(100×14%)-(14×30%)]	(9.8)	3.037	(29.76)	3.169	(31.06)
4	Redemption	(100)	0.635	(63.5)	0.683	(68.3)
				3.74		(2.36)

$$IRR = 10\% + \left\{\frac{2\% \times 2.36}{6.1}\right\}$$

$$= 10.7\%$$

(03 marks)

(d)

	No. of Shares ('000)	Market Value	%	COC	WACC%
Ordinary Shares	7,000	875,000	37%	32	11.9%
Preference Shares	8,000	512,000	22%	15	3.3%
Debentures	10,000	970,000	41.2%	10.7	4.4%
	25,000	**2,357,000**			**19.6%**

WACC = 19.6 %

(03 marks)
(Total 10 marks)

End of Section B

Suggested Answers to Question Eight:

Chapter 6 - Capital Investments Appraisal

(a)

Project A

Rs.	Investment	Profit	Depreciation	Income tax	Cash flows	COC @ 15%	Present Value
Y0	(200,000,000)		-	-	(200,000,000)	1.000	(200,000,000)
Y1		65,000,000	40,000,000	(16,500,000)	88,500,000	0.869	76,906,500
Y2		80,000,000	40,000,000	(21,000,000)	99,000,000	0.756	74,844,000
Y3		100,000,000	40,000,000	(27,000,000)	113,000,000	0.657	74,241,000
Y4		120,000,000	40,000,000	(33,000,000)	127,000,000	0.572	72,644,000
Y5		120,000,000	40,000,000	(48,000,000)	112,000,000	0.497	55,664,000
						NPV	**154,299,500**

Project B

Rs.	Investment	contribution	Fixed Cost	Income Tax	Cash flows	COC @ 15%	Present Value
Y0	(150,000,000)	-	-	-	(150,000,000)	1.000	(150,000,000)
Y1		72,000,000	(12,000,000)	(6,750,000)	53,250,000	0.869	46,274,250
Y2		98,700,000	(12,000,000)	(14,760,000)	71,940,000	0.756	54,386,640
Y3		114,660,000	(12,000,000)	(19,548,000)	83,112,000	0.657	54,604,584
Y4		92,610,000	(12,000,000)	(12,933,000)	67,677,000	0.572	38,711,244
						NPV	**43,976,718**

W1 - Income tax (A)	**Y1**	**Y2**	**Y3**	**Y4**	**Y5**
Cash flows	105,000,000	120,000,000	140,000,000	160,000,000	160,000,000
Capital allowance 25%	(50,000,000)	(50,000,000)	(50,000,000)	(50,000,000)	
Taxable profit	55,000,000	70,000,000	90,000,000	110,000,000	160,000,000
Income tax @ 30%	16,500,000	21,000,000	27,000,000	33,000,000	48,000,000
Tax saving / (Tax Payment)	(16,500,000)	(21,000,000)	(27,000,000)	(33,000,000)	(48,000,000)

W2 - Contribution	**Y1**	**Y2**	**Y3**	**Y4**
Demand	180,000	235,000	260,000	200,000
Price	2,000	2,100	2,205	2,315
Variable cost	(1,600)	(1,680)	(1,764)	(1,852)
Contribution per unit	400	420	441	463
Total contribution	72,000,000	98,700,000	114,660,000	92,610,000

W4 - Income tax (B)	**Y1**	**Y2**	**Y3**	**Y4**
Cash flows	60,000,000	86,700,000	102,660,000	80,610,000
Capital allowance 25%	(37,500,000)	(37,500,000)	(37,500,000)	(37,500,000)
Taxable profit	22,500,000	49,200,000	65,160,000	43,110,000
Income tax @ 30%	6,750,000	14,760,000	19,548,000	12,933,000
Tax saving / (Tax Payment)	(6,750,000)	(14,760,000)	(19,548,000)	(12,933,000)

(12 marks)

(b)

	Project A	**Project B**
Net present value	154,299,500	43,976,718
Annual Equelant Factor	3.352	2.855
Annual Equvalant Value	46,032,070	15,403,403

Note

When projects have unequal lifetimes, direct comparison using NPV alone can be misleading because each project generates benefits over different time horizons. In such situations, the Annual Equivalent Value (AEV) converts the total NPV into an equivalent annual return, enabling a consistent year-by-year comparison. Likewise, when projects require different initial investment amounts, the Profitability Index (PI) measures value created per rupee invested, which is particularly useful under capital rationing. Therefore, AEV adjusts for time differences while PI adjusts for investment scale differences, leading to a more accurate investment decision.

Project A is the best project.

(03 marks)
(Total 15 marks)

Suggested Answers to Question Nine:

Chapter 4 - Standard Costing & Variance Analysis

(a)

(i)

SPV = (AP − SP) × Act. Qty sold

= [(246180000/74600) − 3,200] × 74,600

= 3,300.00 − 3,200 × 74,600 = 7,460,000 F

(02 marks)

(ii)

DMPV (X) = SP − AP × Act. Use

700 − 5,658,000 / 8,200 × 8,200

= 700 − 690 * 8,200 = 82,000 F

DMPV (Y) = SP − AP × Act. Use

1000 − 1075 * 154,700 = 11,602,500 A

11,520,500 A

(02 marks)

(iii)

Material Mix Variance

Material	AUAM	AUSM	Variance Qty	Std Price	Variance Rs.	
Material X	8,200	8,145	(55.00)	700.00	38,500	A
		162,900*0.1/2				
Material Y	154,700	154,755	55.00	1,000.00	55,000	F
		162,900*1.9/2				
	162,900	162,900	-		**16,500**	**F**

(03 marks)

(iv)

Material Yield Variance

Material	SUSM	AUSM	Variance Qty	Std Price	Variance Rs.	
Material X	7,460	8,145	685.00	700.00	479,500	A
	0.1*74600					
Material Y	141,740	154,755	13,015.00	1,000.00	13,015,000	A
	1.9*74600					
	149,200	162,900	13,700		**13,494,500**	**A**

(03 marks)

(b)

Operating Statement - Marginal Costing

Budgeted Contribution (580× 80,000)		46,400,000
Sales Margin Contribution		(3,132,000)
Add:		
Direct labour rate variance	3,820,000	
Sales Price Variance	7,460,000	
Direct material mix variance	16,500	11,296,500
		54,564,500
Less:		
Direct labour efficiency variance	900,000	
Variable OH expenditure variance	382,000	
Variable OH efficiency variance	270,000	
Direct material mix variance	11,520,500	
Direct material yield variance	13,494,500	(26,567,000)
Actual Contribution		**27.997.500**

(05 marks)

(Total 15 marks)

Suggested Answers to Question Ten:

Chapter 2 - Process Costing and Digital Costing

(A)

(a)

Normal Loss (40,000*8%) = 3,200 liters

Abnormal Loss = 500 liters

Equivalent Units Calculation:

Units	Raw Materials	Direct Labor	VPOH	Total
Finished Goods	32,500	32,500	32,500	
Closing Work-in-progress				
7,000*100%	7,000			
7,000*60%		4,200		
7,000*40%			2,800	
Abnormal Loss	500	500	500	
Equivalent Units	**40,000**	**37,200**	**35,800**	
Costs				
Input from the Process	16,000,000	11,200,000	3,200,000	30,400,000
Work Opening in Progress	680,000	164,600	60,306	904,906
(-)Scrap Value of normal loss (3,200 litres*Rs.250)	(800,000)			(800,000)
	15,880,000	**11,364,600**	**3,260,306**	**30,504,906**
Cost per litre	397	305.50	91.07	793.57

Allocation of Costs

	Raw Material	Direct Labor	Variable Production Overheads	Total
Closing Work in Progress	*2,779,000*	*1,283,100*	*254,996*	*4,317,096*

(06 marks)

(b)

Process 3 Account

	Litres	Rs.		Litres	Rs.
Transferred from Process 2	40,000	16,000,000	Normal Loss	3,200	800,000
Direct Labour		11,200,000	Transferred to Finished goods	32,500	25,791,025
Variable Production Overheads		3,200,000	Closing Work in or progress	7,000	4.317,096
Opening WIP	3,200	904,906	Abnormal Loss	500	396,785
	43,200	**31,304,906**		**43,200**	**31,304,906**

(08 marks)

(B)

(a)

Contribution

	G	H	I
High	50,000	64,000	52,000
Mid	52,000	48,000	46,800
Low	48,000	38,400	**65,000**

(04 marks)

(b)

- Max payoff for **G** = **52,000,000**
- Max payoff for **H** = **64,000,000**
- Max payoff for **I** = **65,000,000**

Product I should be introduced under the Maximax criterion.

Workings:

	G	H	I
Selling Price	300	180	700
VC	220	130	600
Contribution per unit without incentive	80	50	100

Contribution per unit with incentive:

	G	H	I
High	50 (80-30)	32 (50-18)	65 (100-35)
Mid	65 (80-15)	32 (50-18)	65 (100-35)
Low	80	32 (50-18)	100

(02 marks)

(Total 20 marks)

End of Section C

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