



Association of Accounting Technicians of Sri Lanka

Level III Examination – July 2026

Question Paper and Suggested Answers

(3802) MANAGEMENT ACCOUNTING AND FINANCE (MAF)

Association of Accounting Technicians of Sri Lanka

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Level III Examination - July 2026

(3802) 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)

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

$$\text{BEP} = \frac{8,400,000}{60.00 (375 - 315)}$$

$$\text{BEP} = \underline{\underline{140,000 \text{ Units}}}$$

(03 marks)

(b)

$$\begin{aligned} \text{Margin of Safety} &= \text{Budgeted Sales Volume} - \text{BEP Units} \\ &= 640,000 - 140,000 \\ &= \underline{\underline{500,000 \text{ Units}}} \end{aligned}$$

(02 marks)
(Total 05 marks)

Suggested Answers to Question Two:

Chapter 7 - Working Capital Management

		2026
Inventory residence period	1	37
Trade receivables residence period	2	29
		66
(-) Trade payables residence period	3	(46)
Length of working capital cycle		20

Note 01 - Inventory residence period

$$\begin{aligned}
 \text{Inventory residence period} &= \frac{\text{Average inventory}}{\text{Cost of sales}} \times 365 \text{ Days} \\
 &= \frac{(192,480 + 285,000)/2}{2,387,400} \times 365 \text{ Days} \\
 &= \frac{238,740}{2,387,400} \times 365 \\
 &= 36.50 \\
 &= \underline{\underline{37 \text{ days}}}
 \end{aligned}$$

$$\begin{aligned}
 \text{Trade receivables residence period} &= \frac{\text{Average receivables}}{\text{Sales}} \times 365 \text{ Days} \\
 &= \frac{(296,000 + 380,000)/2}{6500000 * 65\%} \times 365 \text{ Days} \\
 &= \frac{338,000}{4,225,000} \times 365 \\
 &= 29.2 \\
 &= \underline{\underline{29 \text{ days}}}
 \end{aligned}$$

Note 03 - Payables residence period

$$\begin{aligned}
 \text{Payables residence period} &= \frac{\text{Average payables}}{\text{Credit Purchase}} \times 365 \text{ D} \\
 &= \frac{(273,480 + 346,500)/2}{\text{Credit Purchase}} \times 365 \text{ D}
 \end{aligned}$$

$$\begin{aligned}
 & \frac{2,479,920}{2,479,920} \\
 = & \frac{309,990}{2,479,920} \times 365 \text{ D} \\
 = & 45.63 \\
 = & \underline{\underline{46 \text{ days}}}
 \end{aligned}$$

(Total 05 marks)

Suggested Answers to Question Three:

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

(a)

- 1) Reduces Human Errors
- 2) Saves Time and Speeds Up Cycles
- 3) Improves Security and Audit Trails
- 4) Enhances Collaboration Across Teams
- 5) Forecast in real time
- 6) Create reports that can compare historical data.

(02 marks)

(b)

- By improving accuracy and reducing errors.
- Enhancing Flexibility
- Providing real time insights
- Enabling deeper analysis and simulation
- Improving collaboration
- Overall cost saving due to the above
- Track performance in real time
- Enable data driven decision making through techniques
- Automate data consolidation
- Provide visual dashboards to monitor expenses, identify inefficiencies, and forecast future financial performance.

(03 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.
Material - Opportunity Cost (450×120)	54,000
-Increment Cost (550×500)	110,000
Skilled labour – Overtime (160×500)	80,000
Unskilled Labour (400×25)	100,000
Relevant Cost	344,000
Bid Price	400,000

Alternative Answer

			Rs.
Bid Value			400,000
(-) Relevant cost			
<u>Material</u>	Qty*Price per Kg		
Material - Existing Stock	Opportunity cost	450*120	(54,000)
Material - Additional Purchase	Relevant cost (Over time)	550*200	(110,000)
<u>Labour</u>	No.of hrs*Std. Hrly Rate		-
Skilled Labour	Relevant cost	160*500	(80,000)
Skilled Labour - Normal Hours	Sunk cost	160*350	N/A
Unskilled Labour *	Sunk cost	400*250	N/A
Total Relevant Cost			<u>(244,000)</u>
Estimated Profit / (Loss)			<u>156,000</u>

* Assume as a Sunk Cost

This project should be bid since it makes Rs. 156,000/- profit.

(Total 05 marks)

End of Section A

Suggested Answers to Question Five:

Chapter 5 - Sources of Capital and Cost of Capital

(a)

$$\begin{aligned} K_e &= \frac{D_0}{P_0} \\ &= \frac{2.9}{16} \times 100 \\ &= \underline{\underline{18.13\%}} \end{aligned}$$

(02 marks)

(b)

$$\begin{aligned} K_p &= \frac{D_0}{P_0} \\ &= \frac{7.5}{60} \times 100 \\ &= \underline{\underline{12.5\%}} \end{aligned}$$

(02 marks)

(c)

Cost of Redeemable Debentures

Period	Description	CF	DF @ 12%	DCF	DF @ 10%	DCF
0	Issue of Debenture	92	1	92	1	92
1-4	Interest (1-t) = (11-3.3)	(7.7)	3.038	(23.39)	3.170	(24.41)
4	Redemption	(100)	0.636	(63.6)	0.683	(68.3)
			NPV	5.01	NPV =	(0.71)

$$\begin{aligned} \text{IRR} &= 10\% + \left[\frac{2\% \times 0.71}{5.72} \right] \\ &= \underline{\underline{10.25\%}} \end{aligned}$$

(03 marks)

(d) WACC

Type	No. of shares (In million)	Market Value (Rs. Millions)	%	COC	WACC%
Ordinary Share	120	1,920	40%	18.125	7.25
Preference Share	20	1,200	25%	12.5	3.125
Debentures	18	1,656	35%	10.25	3.588
		4,776			13.963

WACC = 13.96%

(03 marks)
(Total 10 marks)

Suggested Answers to Question Six:

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

Vibrant Ltd. Cash Budget for the Quarter ending 30th September 2026

(Rs '000)

	July 2026	August 2026	September 2026
Cash inflow:			
Sales	45,000	40,000	40,000
Interest	-	-	32.23
	45,000	40,000	40,032.23
Payments			
Raw Materials (W-1)	25,000	15,000	20,000
Labour Cost (W-2)	7,500	4,500	6,000
Variable Production (W-3)	3,200	4,000	4,000
Fixed Cost	5,000	5,000	5,000
OD Interest	100	30	-
	(40,800)	(28,530)	(35,000)
Surplus	4,200	11,470	5,032.23
B/B/F	(6,000)	(1,800)	9,670
B/C/F	(1,800)	9,670	14,702.23

Workings:

(W-1) - Material

	April	May	June	July	August	September	October
Material Cost	20,000	20,000	25,000	25,000	15,000	20,000	-
Order	25,000	25,000	15,000	20,000	-	-	-
Delivery	20,000	25,000	25,000	15,000	20,000	-	-
Payment	-	20,000	25,000	25,000	15,000	20,000	-

(W-2) - Labour Cost

	April	May	June	July	August	September	October
Cost	6,000	6,000	7,500	7,500	4,500	6,000	-
Payment	6,000	6,000	7,500	7,500	4,500	6,000	-

(W-3) - Variable Product Cost

	April	May	June	July	August	September	October
Cost	3,200	3,200	4,000	4,000	2,400	3,200	-
Payment	-	-	3,200	3,200	4,000	4,000	-

(Total 10 marks)***Suggested Answers to Question Seven:***
Chapter 1 - Introduction to the Management Accounting, Relevant Cost and Decision Making under risk and uncertainty
(a)**Direct Material - X1**

Product	Sales Unit	Usage/Unit	Total Requirement
Small	9,000	0.25 375/1500	2,250
Medium	5,000	0.4 600/1500	2,000
Large	3,000	0.6 900/1500	1,800
Total Required Material X1 - Kg			6,050
Available Material X1 - Kg			(7,000)
Excess			950

Direct Material - X2

Product	Sales Unit	Usage/Unit	Total Requirement
Small	9,000	0.1 60/600	900
Medium	5,000	0.2 120/600	1,000
Large	3,000	0.30 180/600	900
Total Required Material X2 - Kg			2,800
Available Material X2 - Kg			2,500
Shortage			300

Limiting factor is Material X2**(04 marks)**

(b)

	Small	Medium	Large
Selling Price (Rs.)	750	1,150	1,650
(-) Variable Cost			
Direct Material - X1	(375)	(600)	(900)
Direct Material - X2	(60)	(120)	(180)
Direct Labour	(80)	(120)	(140)
Variable Production OH	<u>(20)</u>	<u>(30)</u>	<u>(40)</u>
Contribution	215	280	390
Direct Material - X2	0.1	0.2	0.3
Contribution - Material X2	2,150	1,400	1,300
Ranking	①	②	③

Product	Production	Direct	Total
	Plan	Material X2	
Small	9,000	0.1	900
Medium	5,000	0.2	1,000
Large	2,000	0.3	600
			<u>2,500</u>

(06 marks)

(Total 10 marks)

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End of Section B

Suggested Answers to Question Eight:

(a)

Statement of Equivalent Units

		Direct Material		Direct labour		Overhead	
	Total Qty M	DOC	EU	DOC	EU	DOC	EU
Opening stock -Output	16,000	100%	16,000	100%	16,000	100%	16,000
Fresh - Output	69,000	100%	69,000	100%	69,000	100%	69,000
Normal loss 6% of input	7,200	-	-	-	-	-	-
Abnormal loss	15,800	100%	15,800	100%	15,800	100%	15,800
Closing WIP	28,000	100%	28,000	70%	19,600	30%	8,400
Total input	136,000		128,800		120,400		109,200

D.

Computation of unit cost	Material	D. Labour	Overhead	Total
Opening stock	944,800	373,200	242,400	1,560,400
Cost of Input	7,200,000	3,600,000	2,160,000	12,960,000
Sale of scrap units @40/-	(288,000)	-	-	(288,000)
Net cost of input	7,856,800	3,973,200	2,402,400	14,232,400
Expected Equvelant Units	128,800	120,400	109,200	
Cost of unit produced	61.00	33.00	22.00	116.00

Statement of evaluation	D. Material			D. Labour			Overhead			Total
	Eus	Cost	Total	Eus	Cost	Total	Eus	Cost	Total	
Output	85,000	61.00	5,185,000	85,000	33.00	2,805,000	85,000	22.00	1,870,000	9,860,000
Abnormal loss	15,800	61.00	963,800	15,800	33.00	521,400	15,800	22.00	347,600	1,832,800
Closing WIP	28,000	61.00	1,708,000	19,600	33.00	646,800	8,400	22.00	184,800	2,539,600
			7,856,800			3,973,200			2,402,400	

(07 marks)

(b)

Process 1 Account

Description	Units	Value	Description	Units	Value
Opening WIP	16,000	1,560,400	Transfer to process II	85,000	9,860,000
D. Material	120,000	7,200,000	Normal loss	7,200	288,000
D. Labour		3,600,000	Abnormal loss	15,800	1,832,800
Variable prod. Overhead		2,160,000	Closing WIP	28,000	2,539,600
	136,000	14,520,400		136,000	14,520,400

(08 marks)

(Total 15 marks)

Suggested Answers to Question Nine:

Chapter 6 - Capital Investments Appraisal

(a)

							(Rs.000)
Year	Investment	Contribution	Fixed Cost	Income tax	Cash flows	COC @ 15%	Present Value
Y0	(700,000,000)			-	(700,000,000)	1.000	(700,000)
Y1		250,000,000	(60,000,000)	(21,000,000)	169,000,000	0.869	146,861
Y2		440,000,000	(66,000,000)	(76,200,000)	297,800,000	0.756	225,136
Y3		605,000,000	(72,600,000)	(123,720,000)	408,680,000	0.658	268,911
Y4		798,600,000	(79,860,000)	(179,622,000)	539,118,000	0.572	308,375
Y5	100,000,000	585,640,000	(87,846,000)	(113,338,000)	484,456,000	0.497	240,775
							NPV
							490,059

W1 - Contribution

	Y1	Y2	Y3	Y4	Y5
Sale Units	250,000	400,000	500,000	600,000	400,000
Price	7,000	7,700	8,470	9,317	10,249
Variable cost	(6,000)	(6,600)	(7,260)	(7,986)	(8,785)
Contribution per unit	1,000	1,100	1,210	1,331	1,464
Total contribution	250,000,000	440,000,000	605,000,000	798,600,000	585,640,000

W2 - Fixed cost

Estimated cost without

Dep*n	60,000,000	66,000,000	72,600,000	79,860,000	87,846,000
Fixed cost	60,000,000	66,000,000	72,600,000	79,860,000	87,846,000

W3 - Income tax

	Y1	Y2	Y3	Y4	Y5
Cash flows	190,000,000	374,000,000	532,400,000	718,740,000	497,794,000
Capital allowance 20%	(120,000,000)	(120,000,000)	(120,000,000)	(120,000,000)	(120,000,000)
Taxable profit	70,000,000	254,000,000	412,400,000	598,740,000	377,794,000
Income tax @ 30%	21,000,000	76,200,000	123,720,000	179,622,000	113,338,000
Tax saving / (Tax Payment)	(21,000,000)	(76,200,000)	(123,720,000)	(179,622,000)	(113,338,000)

(13 marks)

(b) It is recommended to proceed with project as it generated a positive NPF.

(02 marks)

(Total 15 marks)

Suggested Answers to Question Ten:

Chapter 4 - Standard Costing & Variance Analysis

(A)

(a)

(i) Sales Price Variance = Actual Sales Quantity × (Actual Price – Standard Price)

$$= 196,600 (2,400 - 2,600)$$

$$= \underline{\underline{39,200,000 \text{ A}}}$$

(ii) Direct Material Price Variance = Actual Quantity × (Standard Price – Actual Price)

$$\text{Material A} = 210,000 (1,200 - 1,140)$$

$$= \underline{\underline{12,600,000 \text{ F}}}$$

$$\text{Material B} = 91,350 (300 - 325)$$

$$= \underline{\underline{2,283,750 \text{ A}}}$$

$$\text{DMPV} = 12,600,000 \text{ F} - 2,283,750 \text{ A}$$

$$= \underline{\underline{10,316,250 \text{ F}}}$$

(iii) Direct Material Mix Variance = Standard price of DM × [(total actual material usage × standard mix) – (total actual material usage × actual mix)]

$$\text{Material A} = 1,200 [(301,350 \times 1/1.5) - (301,350 \times 210,000/301,350)]$$

$$= 1,200 (200,900 - 210,000)$$

$$= \underline{\underline{10,920,000 \text{ A}}}$$

$$\text{Material B} = 300 [(301,350 \times 0.5/1.5) - (301,350 \times 91,350/301,350)]$$

$$= 300 (100,450 - 91,350)$$

$$= \underline{\underline{2,730,000 \text{ F}}}$$

$$\text{DMMV} = 10,920,000 \text{ A} + 2,730,000 \text{ F}$$

$$= \underline{\underline{8,190,000 \text{ A}}}$$

(iii) Direct Material Yield Variance = Standard price of DM × [(total standard material usage × standard mix) – (total actual material usage × standard mix)]

$$\text{Material A} = 1,200 [(294,000 \times 1/1.5) - (301,350 \times 1/1.5)]$$

$$= 1,200 (196,000 - 200,900)$$

$$= \underline{\underline{5,880,000 \text{ A}}}$$

$$\text{Material B} = 300 [(294,000 \times 0.5/1.5) - (301,350 \times 0.5/1.5)]$$

$$= 300 (98,000 - 100,450)$$

$$= \underline{\underline{735,000 \text{ A}}}$$

$$\text{DMYV} = 5,880,000 \text{ A} + 735,000 \text{ A}$$

$$= \underline{\underline{6,615,000 \text{ A}}}$$

(10 marks)

(b)

Operating Statement - Marginal Costing

Budgeted Contribution	425*180000	76,500,000
Sales margin volume variance		6,800,000
Budgeted contribution of actual sales	425*196000	83,300,000
Sales Price Variance		39,200,000
		<u>44,100,000</u>

Adjusting variances

	<u>A</u>	<u>F</u>	
Direct material price variance		10,316,250	
Direct material mix variance	8,190,000		
Direct material yield variance	6,615,000		
Direct labour rate variance		9,120,000	
Direct labour efficiency variance	4,000,000		
Variable OH expenditure variance		3,040,000	
Variable OH efficiency variance	1,500,000		
	<u>20,305,000</u>	<u>22,476,250</u>	<u>2,171,250</u>
Actual contribution			<u>46,271,250</u>

(04 marks)

(B)

(a)

1. It saves time because large amounts of financial and accounting data can be processed quickly.
2. Automation reduces human errors in calculations and data entry.
3. Real-time and accurate information helps management with planning, budgeting and decision-making.
4. Automation reduces the time and labour required for routine accounting activities
5. Technology enables quick generation of reports and helps management monitor performance and identify problems.
6. Enhance security
7. Improve quality of decision making

(03 marks)

(b)

1. Oracle Inventory Management
2. SAP
3. Microsoft Dynamics 365
4. QuickBooks
5. Tally ERP



(03 marks)
(Total 20 marks)

End of Section C

Notice:

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