

UNIVERSITY OF COLOMBO, SRI LANKA
FACULTY OF MANAGEMENT AND FINANCE

Bachelor of Business Administration Honours in Accounting (Semester V) Examination –
August, 2021

ACT 3203 – Advanced Management Accounting

Two (02) Hours

This Paper Consists of Five (05) Questions Printed in Five (05) Pages

Answer Any Two (02) Questions in Part I and All Questions in Part II

Use of Calculators is Permitted

Part I

1. Management accountants in business organizations in the twentieth century are not traditional accountants, instead are ‘hybrid accountants’. They are facing intense challenges and are expected to adapt to the rapid changes in the business environment. Companies thus need more ‘proactive management accountants’, who are expected to become part of the management and are ready to accept exciting challenges that lie ahead of them (Zainuddin & Sulaiman, 2016).

i. Identify four (04) areas that are rapidly changing in today’s business environment.

(04 Marks)

ii. Explain how management accountants could be proactive within the changing business environment.

(09 Marks)

iii. Explain how the management accounting team of a company could provide directions to other functions such as finance, production, marketing and general management of the organization to retain its strategic position in today’s business environment.

(12 Marks)

(Total 25 marks)

2. An example of company's people retention plan is 'paying an additional incentive to keep work-floor level employees motivated to continuously engage in work. This is done by paying a Lumpsum Retention Bonus for those who stayed until the end of the period and have not recorded any uninformed absenteeism'.

i. Identify the advantages of the above retention plan of the company.

(06 Marks)

ii. From a performance measurement perspective, what is the most critical aspect in a compensation package of a business manager? Explain your answer with examples.

(09 Marks)

iii. 'Stock options' is one of the most popular incentive mechanisms that is used especially in the IT industry across the world. Do you agree? Justify your answer.

(10 Marks)

(Total 25 marks)

3. Scoorter (Pvt) Ltd is a well-established producer of high-quality motorbikes to the Sri Lankan market. Currently, it has developed a high-tech and stylish sports model motorbike, 'racing-star', targeting the Sri Lankan sport-model-bike lovers who are price-insensitive. The company is planning to introduce this product to the market within the next two months. Based on the experience with a similar product, the company expects that 'racing-star' will enter its maturity stage of the life cycle in around six months after the introduction. As the management further expects, the product would stay in the maturity stage for two years and then will enter the decline phase. In the meantime, as part of their production expansion plans, Scoorter (Pvt) Ltd has decided to produce another product 'beauty-wheels', a general-purpose bike targeting Sri Lankan women. However, similar products are already available in the Sri Lankan market.

i. As the newly appointed Management Accountant of the company, write a report to the General Manager on pricing of these two products. Your report needs to explain the justification for the selection of the particular pricing strategy.

(12 Marks)

ii. The General Manager who has a technical background has requested you to describe cost-plus pricing method under different cost-structures and possible limitations of the cost-plus pricing method. As the Management Accountant of the company, prepare a note on this referring to data pertaining to Scooters (Pvt) Ltd.

(13 Marks)

(Total 25 marks)

Part II

4. Stretch-it Ltd has been offered supplies of a special ingredient BP at a transfer price of Rs.150 per Kg by Stripes Ltd which is part of the same group of companies. Stretch-it Ltd processes and sells the special ingredient HP to customers external to the group at Rs.150 per Kg. Stripes Ltd determines its transfer price on cost plus 25% profit mark-up. Total cost has been estimated as 75% variable and 25% fixed.

Discuss the transfer price which Stripes Ltd should offer to transfer the special ingredient BP to Stretch-it Ltd so that group profit maximizing decisions may be fulfilled on financial grounds under each of the following situations:

i. Stripes Ltd has an external market for all of its production of special ingredient BP at a selling price of Rs.150 per kg. Internal transfers to Stretch-it Ltd would result in Rs.15 per kg of variable packing cost being avoided.

(08 Marks)

ii. Conditions are as per (i) above, but Stripes Ltd has production capacity for 3000 kg of special ingredient BP for which no external market is available.

(08 Marks)

- iii. Conditions are as per (ii) above, but Stripes Ltd has an alternative use for some of its spare production capacity. This alternative use is equivalent to 2000 Kg of special ingredient BP and would earn a contribution of Rs.60,000.

(09 Marks)

(Total 25 marks)

5. i. Helpco (Pvt) Ltd has two divisions Helpco - X and Helpco - Y. While Helpco - X earns Rs. 3.5 million and Helpco - Y earns Rs. 7 million as profit. These divisions have Rs. 15 million and 35 million of net assets, respectively. The cost of capital of the company is 16%.

- a. Calculate the return on investment (ROI) and residual income (RI) figures for the two divisions under review, and comment on your results.

(04 Marks)

- b. State which method of performance evaluation (i.e., ROI or RI) would be more useful when comparing divisional performance and why.

(06 Marks)

- ii. Perera is considering paying Rs.15,000 into a fund monthly for ten years, starting in one year's time. The interest earned will be 1 per cent per month. Once all of these payments have been made, the investment will be transferred immediately to an account that will earn interest at 15 per cent per annum until maturity. The fund matures five years after the last payment is made into the fund. Calculate the terminal value of the fund in 15 years' time.

(05 Marks)

iii. An investment gives the following results:

| Net Present Value (NPV) Rs'000 | Discount Rate |
|---------------------------------------|----------------------|
| 383 | 10% |
| (246) | 15% |

Calculate the Internal Rate of Return (IRR).

(05 Marks)

iv. Distinguish between independent projects and mutual exclusive projects.

(05 Marks)

(Total 25 marks)
