

ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL III EXAMINATION - JANUARY 2026

(302) 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.**

SECTION A

(Total 20 marks)

Question 01

Pix Ltd., manufactures and sells **Product P** and the following information has been extracted from the standard cost card of **Product P**:

	Per Unit (Rs.)
Selling Price	3,000
Direct Material	1,200
Direct Labour	950
Variable Overheads	320

Monthly budgeted fixed overhead is Rs.4,200,250/-.

Budgeted production / sales per month are 30,000 units.

You are required to:

Calculate the following:

- (a) Break Even Point (BEP) in units. (03 marks)
- (b) Expected profit for the month at the budgeted sales quantity. (02 marks)

(Total 05 marks)

Question 02

Emmy Ltd., is a manufacturer and a wholesaler of **Product X**. The following information has been extracted from the financial statements of **Emmy Ltd.**:

(Rs.'000)

For the Year Ended 31 st March	2025	2024
Sales	21,300	19,800
Cost of Sales	13,000	12,276

As at 31 st March	2025	2024
Inventory	1,172	906
Trade Receivables	3,550	3,266
Trade Payables	2,570	2,110

All sales and purchases are made on credit basis.

You are required to:

Calculate the working capital cycle (in days) of **Emmy Ltd.** for the year ended 31st March 2025.

(05 marks)

Question 03

Budgetary control statements are regularly prepared by companies for the purposes of monitoring, analyzing, controlling and decision making. These statements provide both feedback and feed forward controls.

You are required to:

(a) **Explain** the difference between “Feedback Control” and “Feedforward Control”. (03 marks)

(b) **State** two(02) approaches of budgeting. (02 marks)

(Total 05 marks)

Question 04

Techno Ltd., develops tailor-made software solutions to its clients and mostly uses hired freelance staff for those projects.

Techno Ltd. is experiencing delays in some of its existing projects and is keen on undertaking short term projects to cover the costs. **Techno Ltd.** has received an inquiry for the development of an inventory module for **Apple Ltd.**, to be completed within 4 months. **Techno Ltd.** needs to submit a quotation for this new project.

The following information is provided with regard to this short term project:

(1) The human resource requirement of this project has been assessed as follows:

Staff Requirement	No. of Hours	Standard Hourly Rate (Rs.)
Software Developers	2,880	24,000
Business Analyst	224	9,000
Testers	224	15,000
Project Manager	720	24,000

(2) The entire staff requirement of software developers is needed to be hired for this project. There are no idling hours for the existing Software Developers.

(3) There are some Testers who have been hired and paid for another projects and are idling at the moment due to a delay in the existing projects. The number of idle hours is estimated to be 150 hours.

(4) The Business Analyst and Project Manager are permanent staff members who are paid a monthly salary of Rs.300,000/- and Rs.1,000,000/- per month respectively. There is an adequate free time for the existing Business Analyst and Project Manager to complete this project.

(5) There is a new licensing requirement for this project which will cost Rs. 6 million.

(6) The other overhead that would be incurred for this project is estimated to be Rs. 1 million.

(7) **Techno Ltd.** charges Rs.80,000,000/- as the price for this project.

You are required to:

Assess whether **Techno Ltd.** should accept this short term project.

(Support your answer with necessary calculations and mention whether each cost is relevant or not.) _____ (05 marks)

End of Section A _____

SECTION B

(Total 30 marks)

Question 05

Heel Ltd. manufactures and sells shoes. The following information is available with regard to operations of the company.

(1) 60% of the sales are made with a 30 days credit period while the balance is on cash basis. The budgeted sales from December 2025 to March 2026 are as follows:

	Dec-25	Jan-26	Feb-26	Mar-26
Sales (Rs.)	20,400,000	16,000,000	8,000,000	11,000,000

(2) A contribution ratio on sales of 30% is maintained at any given time.

- (3) The direct material cost is equivalent to 60% of the total variable cost. The materials are purchased two months prior to the sales to facilitate the production with a 60 days credit period from the date of purchase.
- (4) The direct labour cost is equivalent to 15% of the total variable cost and it is paid in the month of sales.
- (5) The other variable overhead expenses are the balance portion of the total variable cost. 50% of the other variable overheads are paid in the month which they are incurred, while the balance is paid in the subsequent month after it is incurred.
- (6) Fixed staff salary cost is Rs. 4 million per month and paid in the same month which it is incurred.
- (7) The staff bonus of Rs. 3.5 million for the year 2025 is to be paid in the month of March 2026.
- (8) The opening cash balance as at 01st January 2026 is Rs.2,350,000/-.
- (9) Excess cash will be held in a savings account earning interest at 4% per annum. Interest is computed based on the opening balance at the beginning of each month.

You are required to:

Prepare the cash budget for the months of January, February and March 2026. (10 marks)

Question 06

X Ltd. produces and sells three different types of products. The below information is extracted from the standard cost cards of three products:

	Rs. (per unit)		
	P	Q	R
Selling Price	2,400	5,000	6,000
Direct Material	1,000	1,800	2,000
Direct Labour:			
Skilled Labour (at Rs.800/- per hour)	200	400	800
Unskilled Labour (at Rs.600/- per hour)	450	600	1,200
Variable Production Overheads	300	450	900
Budgeted Sales per quarter (in units)	10,000	8,000	15,000

In next quarter, the labour availability has been estimated as follows:

Skilled Labour	23,000 hours
Unskilled Labour	40,000 hours

You are required to:

- (a) **Identify** the limiting factor/s with supporting calculations. (04 marks)
- (b) **Calculate** the optimal production mix based on the identified limiting factor/s. (06 marks)

(Total 10 marks)

Question 07

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

- (1) **Best PLC** has 7 million ordinary voting shares in issue which are issued at Rs.100/- per share. The shares are currently trading at Rs.125/- per share and the company paid a dividend of Rs.25/- per share for the last financial year. The dividends are expected to grow by 10% per annum.
- (2) **Best PLC** has 8 million listed irredeemable preference shares, in issue which were initially issued at Rs.60/- per share. These shares are currently trading at Rs.64/- per share. Annual dividend per share is Rs.9.60.
- (3) The company has also issued 10 million listed redeemable debentures with a coupon rate of 14% per annum, issued at Rs.100/- per debenture. The current market price of a debenture is Rs.97/-. The redemption will happen in 4 years.
- (4) The company is liable to pay income tax at the rate of 30%.

You are required to:

Calculate the following:

(a) Cost of Ordinary Voting 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)	

End of Section B

SECTION C

(Total 50 marks)

Question 08

Tab Ltd. is assessing two different projects as potential investments to select for the production of a new product from two products (**Product A** or **Product B**).

The following information is provided with regard to two projects:

- (1) **Project A:**

This involves an acquisition of a new machinery cost of Rs. 200 million for the production of **Product A**. The machinery has a useful life of 5 years and the depreciation is calculated on the straight-line basis at cost over the useful life of the machinery. Capital allowances on machinery for tax purposes can be claimed at 25% per annum.

The annual profit before tax over the next 5 years are expected to be as follows:

(Rs.)

	Year 1	Year 2	Year 3	Year 4	Year 5
Profit Before Tax	65,000,000	80,000,000	100,000,000	120,000,000	120,000,000

(2) **Project B:**

This project involves the production of new **Product B** for the market and the initial investment on a new machinery is expected to cost Rs.150 million and useful lifetime of the machinery is 4 years. The selling price during the first year is expected to be Rs.2,000/- per unit, while the variable cost during the first year would be Rs.1,600/- per unit. Thereafter, the selling price and variable cost are to be increased in line with the estimated inflation rate of 5% per annum. The fixed cost of the project except depreciation is Rs. 12 million per annum. Depreciation is charged over the useful lifetime of the machinery on the straight-line basis at cost and capital allowance can be claimed at 25% per annum for tax purposes.

The below quantities are expected to be produced and sold over the next 4 years:

	Year 1	Year 2	Year 3	Year 4
No. of Units	180,000	235,000	260,000	200,000

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

(The cost of capital of the company is 15%).

You are required to:

(a) **Calculate** the Net Present Value (NPV) of the following:

(i) **Project A.**

(ii) **Project B.**

(12 marks)

(b) **Identify** the best investment option from **Project A** and **Project B.**

(03 marks)

(Total 15 marks)

Question 09

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

	Rs. (Per Unit)
Direct Material:	
Material X (0.1 kg at Rs.700/- per kg)	70
Material Y (1.9 kg at Rs.1,000/- per kg)	1,900
Direct Labour (at Rs.2,000/- per hour)	500
Variable Overheads (at Rs.600/- per hour)	150
Total Variable Cost	2,620
Selling Price	3,200
Contribution	580

The company has budgeted to sell 80,000 units for the month of December 2025 and the budgeted fixed overheads per month is Rs.14,000,000/-.

Actual production / sales quantity for the month of December 2025 was 74,600 units and actual performance is given below:

	Rs.
Sales Revenue (74,600 units)	246,180,000
Direct Material:	
Material X (8,200 kg)	5,658,000
Material Y (154,700 kg)	166,302,500
Direct Labour Cost (19,100 hours)	34,380,000
Variable Overheads	11,842,000
Fixed Overheads	15,250,000

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

	Rs.	
Direct Labour Rate Variance	3,820,000	Favourable
Direct Labour Efficiency Variance	900,000	Adverse
Sales Margin Volume Variance	3,132,000	Adverse
Variable Overhead Expenditure Variance	382,000	Adverse
Variable Overhead Efficiency Variance	270,000	Adverse
Fixed Overhead Expenditure Variance	1,250,000	Adverse

You are required to:

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

- (i) Sales Price Variance. (02 marks)
- (ii) Direct Material Price Variance. (02 marks)
- (iii) Direct Material Mix Variance. (03 marks)
- (iv) Direct Material Yield Variance. (03 marks)

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

(Total 15 marks)

Question 10

(A) **Champ Ltd.** manufactures products through several consecutive processes. The inputs to **Process 3** during the month of December 2025 were as follows:

	Rs.
Input Transferred from Process 2 (40,000 litres)	16,000,000
Direct Labour	11,200,000
Variable Production Overheads	3,200,000

At the beginning of December 2025, there were 3,200 litres of opening work-in-progress in stock with the following levels of completion:

Raw Material	100% complete, valued at Rs.680,000/-
Direct Labour	80% complete, valued at Rs.164,600/-
Variable Production Overheads	50% complete, valued at Rs.60,306/-

At the end of December 2025, there were 7,000 litres of closing work-in-progress, which had the following levels of completion:

Raw Material	100%
Direct Labour	60%
Variable Production Overheads	40%

At the end of the month, 32,500 litres were transferred as finished goods.

The normal loss is 8% from the input materials from **Process 2** and the scrap value of the normal loss is Rs.250/- per litre.

You are required to:

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

(b) **Prepare** the **Process 3** account. (08 marks)

(B) **Goodie Ltd.** is considering introducing a new product to its product range, chosen from three products.

The details of the three shortlisted products are as follows:

Product	G	H	I
Sales / Production in units:			
High	1,000,000	2,000,000	800,000
Mid	800,000	1,500,000	720,000
Low	600,000	1,200,000	650,000
Sales Price (Rs. Per Unit)	300	180	700
Variable Costs (Rs. Per Unit)	220	130	600

In addition to the above, if the sales quantity is above 700,000 units, an incentive equivalent to 5% of the selling price per unit is paid on the number of units sold. Once sales quantity surpasses 900,000 units, an incentive of 10% of the selling price per unit is paid on the number of units sold.

You are required to:

(a) **Prepare** the payoff table presenting the contribution for the above decisions. (04 marks)

(b) **Identify** which product should be introduced under the Maximax criterion. (02 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.