ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL 03 EXAMINATION - JULY 2026

(3802) MANAGEMENT ACCOUNTING & FINANCE

26-07-2026
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

Rit Ltd., manufactures and sells several different products and the following information has been extracted from the standard cost card of **Product T2**:

	Per Unit (Rs.)
Selling Price	375
Direct Material	220
Direct Labour	75
Variable Overheads	20

Monthly budgeted fixed overhead is Rs.8,400,000/- and the budgeted production / sales per month are 640,000 units.

You are required to:

Calculate the following:

(a) Break Even Point (BEP) in units. (03 marks)

(b) Margin of Safety in units. (02 marks)

(Total 05 marks)

Question 02

Trade Ltd. is a trading company which purchases and sells products. The following information has been extracted from the financial statements of **Trade Ltd.**:

(Rs.)

For the Year Ended 31st March	**2026**		**2025**	
Sales		6,500,000		3,450,000
Cost of Sales:				
Opening Inventory	192,480		154,000	
Purchases	2,479,920		1,870,000	
Closing Inventory	(285,000)	(2,387,400)	(192,480)	(1,831,520)
Gross Profit		**4,112,600**		**1,618,480**

As at 31st March	**2026**	**2025**
Trade Receivables	380,000	296,000
Trade Payables	346,500	273,480

In 2025/26, 65% of total sales and all purchases were made on credit basis.

You are required to:

Calculate the Working Capital Cycle (in days) of **Trade Ltd.** for the year ended 31st March 2026.

(05 marks)

Question 03

Automation is a technology that can be used to aid and improve the budgeting process.

You are required to:

(a) **State** two(02) advantages of using the automation in the budgeting process of an organization. (02 marks)

(b) **State** three(03) ways how analytical tools can be used to improve the budgeting process. (03 marks)

(Total 05 marks)

Question 04

X Ltd., is bidding for a project and the following information is provided with regard to this project:

- **Material:** This project requires 1,000kg of materials of which 450 kilograms are available in stock. This material is not used in the daily operations of **X Ltd.** and can therefore be sold as scrap at Rs.120/- per kilogram. These materials were purchased at Rs.175/- per kilogram and the current market price is Rs.200/- per kilogram.

- **Skilled Labour:** 160 hours of skilled labour are required for this project and skilled labour is paid at the rate of Rs.350/- per hour. Skilled labour is currently fully engaged in another project, in normal working hours. Due to the scarcity of skilled labour, recruiting additional skilled labour is not possible at present. Skilled labour has to be engaged after the normal working hours for this project. An amount of Rs.500/- per labour hour is required to pay after the normal working hours.
- **Unskilled Labour:** 400 hours of unskilled labour are required for the project at the rate of Rs.250/- per hour. There is adequate unskilled labour available for this project.

The marketing team believes that the total bid price should not exceed Rs.400,000/-.

You are required to:

Assess whether **X Ltd.** should bid for this project at Rs.400,000/-.

(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

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

(1) **Q PLC** has issued 120 million ordinary voting shares at Rs.12/- per share and the shares are currently trading at Rs.16/- per share. The company pays a dividend of Rs.2.90 per share.

(2) The Company has 20 million listed irredeemable preference shares in issue which were initially issued at Rs.50/- per share. The preference shares are currently trading at Rs.60/- per share. Annual dividend per share is Rs.7.50.

(3) The company has also issued 18 million redeemable debentures with a coupon rate of 11% per annum, issued at Rs.100/- per debenture. The redemption will happen in 4 years. The current market price of a debenture is Rs.92/-.

(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)

Question 06

Vibrant Ltd. manufactures and sells paint. Sales are done through distributors. The following information is available with regard to operations of the company.

(1) The distributors are given 90 days credit for the products.

(2) The monthly budgeted sales from April 2026 to October 2026 are as follows:

	April	May	June	July	August	September	October
Sales (Rs.)	45,000,000	40,000,000	40,000,000	50,000,000	50,000,000	30,000,000	40,000,000

(3) Production is completed in the month prior to the month that the sales are made.

(4) The material cost is 50% of the sales value while labour cost amounts to 15% and variable production overheads amount to 8% on sales value.

(5) The materials are ordered two months in advance and take one month for delivery. The payment is settled with 30 days credit from the date of receipt.

(6) The labour cost is paid at the end of the month in which it is incurred.

(7) Variable production overheads are paid with a 60 day credit period.

(8) The monthly fixed expenses are budgeted to be Rs.5,000,000/-. Fixed expenses are paid with 30 days credit.

(9) The opening overdraft balance as at 01st July 2026 is expected to be Rs.6,000,000/-.

(10) Any excess cash will be held in a savings account earning an interest of 4% per annum while the overdraft interest is 20% per annum. Interest is computed based on the opening balance as at the beginning of each month.

You are required to:

Prepare the cash budget for the months of July, August and September 2026. (10 marks)

Question 07

Variety Ltd. manufactures and sells several different types of products. The below information is extracted from the standard cost cards of a product range:

	Rs. (per unit)		
	Small	**Medium**	**Large**
Selling Price	750	1,150	1,650
Direct Material - **X1** (at Rs.1,500/- per kg)	375	600	900
Direct Material - **X2** (at Rs.600/- per kg)	60	120	180
Direct Labour (at Rs.400/- per hour)	80	120	140
Variable Production Overheads	20	30	40
Budgeted Sales per month (in units)	9,000	5,000	3,000

During the month of August, the Procurement Department anticipates a supply shortage of direct materials, and has forecasted the availability of 7,000 kilograms of Material **X1** and 2,500 kilograms of Material **X2**.

You are required to:

(a) **Identify** the scarce 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)

End of Section B

SECTION C

(Total 50 marks)

Question 08

Junior Ltd. manufactures products through several consecutive processes. The inputs to **Process I** during the month of June 2026 were as follows:

	Rs.
Raw Material (120,000 kg)	7,200,000
Direct Labour	3,600,000
Variable Production Overheads	2,160,000

At beginning of June 2026, there were 16,000 kilograms of opening work-in-progress in stock with the following levels of completion:

	% Completion	Value (Rs.)
Raw Material	100%	944,800
Direct Labour	70%	373,200
Variable Production Overheads	40%	242,400

At the end of June 2026, there were 28,000 kilograms of closing work-in-progress, which had the following levels of completion:

Raw Material	100%
Direct Labour	70%
Variable Production Overheads	30%

At the end of the month, 85,000 kilograms were transferred to **Process II**.

The normal loss is 6% from the input materials and the scrap value of the normal loss units are Rs.40/- per kilogram.

You are required to:

(a) **Prepare** the Statement of Equivalent Units and Cost using the weighted average method. (07 marks)

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

(Total 15 marks)

Question 09

Ito Ltd. is currently evaluating an investment in a new project to manufacture **Product T**. The project's total cost is expected to be Rs.750 million, of which the company has already spent Rs.50 million on preliminary work.

Of the total investment, the machinery cost is Rs.600 million with a 5 year useful life. Capital allowances can be claimed at the rate of 20% per annum for tax purpose and depreciation is calculated on the straight-line basis at cost for accounting purpose.

The balance amount of total investment is the working capital investment and it is expected to be recoverable at the end of 5th year.

The following information is available with regard to the project:

(1) Sales and production over the next 5 years are to be as follows:

Year	Sales / Production (Units)
1	250,000
2	400,000
3	500,000
4	600,000
5	400,000

(2) During the first year of production, the standard cost is expected to be as follows:

	Rs. (Per Unit)
Selling Price	7,000
Direct Material Cost	3,000
Direct Labour Cost	2,000
Variable Production Overheads	1,000

(3) The Annual fixed overheads are expected to be Rs.60 million from the first year of production, excluding depreciation.

(4) The selling price and all other costs including the fixed overheads are expected to be increased in line with the inflation rate of 10% per annum from the 2^{nd} year onwards.

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

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

You are required to:

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

(b) **Recommend** whether the company should proceed with the project. (02 marks)

(Total 15 marks)

Question 10

(A) **Xoyo Ltd.**, manufactures and sells **product Zee**. The following information has been extracted from the standard cost card:

	Rs. (Per Unit)
Direct Material:	
Material A (1 litre at Rs.1,200/- per litre)	1,200
Material B (0.5 litres at Rs.300/- per litre)	150
Direct Labour (45 minutes at Rs.800/- per hour)	600
Variable Overheads (at Rs.300/- per hour)	225
Total Variable Cost	**2,175**
Selling Price	2,600
Contribution	**425**

The budgeted production / sales quantity for the first 6 months of 2026 was 180,000 units and budgeted fixed overheads per month are at Rs.6,200,000/-.

The actual performance for the first six months of 2026 are given below:

	Rs.
Sales (196,000 units)	470,400,000
Direct Material:	
Material A (210,000 litres)	239,400,000
Material B (91,350 litres)	29,688,750
Direct Labour Cost (152,000 hours)	112,480,000
Variable Overheads	42,560,000
Fixed Overheads	40,500,000

The following variances have been calculated by the management for the first six months of 2026:

Sales Margin Volume Variance	6,800,000	Favourable
Direct Labour Rate Variance	9,120,000	Favourable
Direct Labour Efficiency Variance	4,000,000	Adverse
Variable Overhead Efficiency Variance	1,500,000	Adverse
Variable Overhead Expenditure Variance	3,040,000	Favourable

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. (04 marks)

(B) The role of management accounting has expanded significantly in recent years with globalization, environment, challenges, new technologies, etc.

(a) **Identify** three(03) advantages of using technology in management accounting. (03 marks)

(b) **List** three(03) packages available for stock management. (03 marks)

(Total 20 marks)

End of Section C

Action Verbs Check List

Level	Action Verb	Definition	Detailed Instructions for Students
REMEMBER Recalling facts, terms, basic concepts, or answers without necessarily understanding what they mean.	**Identify**	Recognition of someone or something.	Find and name key parts of the topic.
	Define	Meaning of a word or concept.	Provide a clear meaning of a term or concept.
	Recognise	Awareness of something seen before.	Spot and acknowledge something from previous learning.
	State	Clear and concise expression of information.	Express key facts or concepts in a straightforward way.
	List	A series of names, numbers, or items.	Write down key points in an organized manner.
	Record	Entry of details into a system (not accounting).	Enter relevant details clearly and accurately.
UNDERSTAND Comprehending the meaning of informational materials and being able to interpret or explain it.	**Construct**	Formation of something by combining elements.	Bring together different parts into a meaningful whole.
	Differentiate	Recognition of differences between two or more things.	Highlight distinctions between concepts or items.
	Discuss	Consideration of different ideas and opinions about a topic.	Explore various perspectives and provide insights.
	Explain	Clarification of something in greater detail.	Provide a logical and detailed description.
	Illustrate	Use of examples, charts, or visuals to clarify a point.	Support explanations with appropriate examples or visuals.
	Interpret	Explanation of the meaning of information or actions.	Explain what something means in your own words.
	Describe	A detailed account of something.	Provide relevant details in a structured manner.
	Summarise	A brief statement of the main points.	Present key information concisely.
APPLY Using learned material in new and concrete situations. It requires the practical application of knowledge and skills.	**Apply**	Use of knowledge, skills, or rules in a situation.	Utilise relevant knowledge or techniques to achieve an outcome.
	Calculate	Determination of a value through mathematical or logical methods.	Use numerical or logical processes to reach a solution.
	Determine	Establishment of something through research or calculation.	Find out or conclude something after calculation or research.
	Demonstrate	Display of a process or method.	Show a clear example through structured steps.
	Prepare	Organisation of materials or information for use.	Arrange necessary details before engaging in a task.
	Use	Application of a concept, tool, or method for a purpose.	Implement relevant knowledge or resources appropriately.
	Present	Sharing of information effectively.	Deliver key insights clearly and professionally.
ANALYSE 1Breaking down information into its components to understand its structure and relationships.	**Analyse**	Detailed examination of something to understand its components.	Break down information into key parts for better understanding.
	Compare	Examination of similarities and/or differences.	Point out the key commonalities and distinctions.
	Distinguish	Recognition of unique characteristics.	Identify what makes things different from each other.
	Examine	Inspection of something to determine its nature.	Look at something closely to understand it better.
	Outline	Summary of the main points.	Provide an organised overview of key aspects.
	Conduct	Organisation of elements for an experiment, survey, or study.	Follow structured steps to carry out a task systematically.
	Report	Structured presentation of findings.	Present analysed information in a clear and logical format.
EVALUATE Making judgments about the value or quality of ideas or materials based on criteria or standards.	**Advise**	Offering of suggestions or recommendations.	Provide informed guidance based on analysis.
	Evaluate	Critical assessment of value, effectiveness, or impact.	Judge the quality or relevance of something based on criteria.
	Formulate	Development of a structured approach or plan.	Create a well-defined method or strategy.
	Recommend	Suggestion of a suitable course of action.	Propose an approach backed by logical reasoning.
CREATE Combining elements in novel ways to form a coherent or functional whole; the ability to generate new ideas, products, or ways of understanding.	**Create**	Generation of something new.	Develop something original and purposeful.
	Assess	Estimation or evaluation of quality, ability, or nature.	Provide a reasoned judgment based on available information.
	Develop	Expansion or refinement of an idea, product, or concept.	Strengthen and improve an idea over time.
	Propose	Suggestion of a plan or concept for consideration.	Present an idea or structured recommendation.
	Synthesis	Combination of different elements to form a coherent whole.	Integrate multiple ideas or insights into a meaningful conclusion.
	Design	Creation of a structured plan for something	Formulate a detailed structure for a product or process.
	Compile	Assembly of information from various sources.	Organise collected data into a comprehensive format.