



**ASSOCIATION OF ACCOUNTING TECHNICIANS  
OF SRI LANKA**

CURRICULUM 2025

**PILOT PAPER**

**Level 03**

**3802 - MANAGEMENT ACCOUNTING  
& FINANCE (MAF)**

A publication of the Education and Training Division

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# Association of Accounting Technicians of Sri Lanka

## 3802 - Management Accounting & Finance (MAF)

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### Instructions to Candidates (Please Read Carefully)

#### Time Allowed:

Reading	:	15 Minutes
Writing	:	03 Hours

#### Structure of Question Paper:

- This paper consists of three Sections; Section A, Section B and Section C.
- All the questions of Section A, Section B and Section C should be answered.

#### Marks:

- Allocation of marks for each section:

Section	Marks
Section A	20
Section B	30
Section C	50
<b>Total</b>	<b>100</b>

- Marks for each question are shown with the question.
- The pass mark for this paper is 50.

#### Answers:

- All answers should be written in the booklet provided, answers written on the question paper will not be considered for marking.
- Begin your answer of each question on a new page.
- All workings should be clearly shown.
- Do not write on the Margins.

#### Answer Booklets:

- Instructions are shown on the front cover of each answer booklet.

#### Calculators:

- Candidates may use any calculator except those with the facility for symbolic algebra and differentiation. No programmable calculators are allowed.

#### Attached:

- Action verb checklist – Each question will begin with an action verb (excluding OTQ's).
- Students should answer the questions based on the definition of the verb given in the checklist.

**Four (04) Compulsory Questions****SECTION A**

(Total 20 marks)

**Question 01**

**XE Ltd.** manufactures and sells two products namely **Product X1** and **Product X2**. The below information has been extracted from the standard cost card of the company for the two products:

<b>Standard Cost Per Unit</b>	<b>Product X1 (Rs.)</b>	<b>Product X2 (Rs.)</b>
Direct Materials	500	300
Direct Labour	260	180
Variable Production Overheads	140	110
<b>Selling Price per Unit</b>	<b>1,200</b>	<b>800</b>
Budgeted Production / Sales	250,000	125,000

**Product X1** and **Product X2** are expected to be sold in the proportion of 2 : 1 respectively. The budgeted fixed overhead amounts Rs.22,500,000/- for the month of March 2026.

**You are required to:**

- (a) **Calculate** the Breakeven Point in Units for the **Product X1** and **Product X2** separately. (03 marks)
- (b) **Identify** two (02) recent developments in management accounting (02 marks)

(Total 05 Marks)

**Question 02**

**Right Ltd.**, purchases and sells **Product P**. The following information has been extracted from the financial statements of **Right Ltd.**:

<b>For the Year Ended 31<sup>st</sup> March</b>	<b>2025</b>		<b>2024</b>	
Revenue		2,000,000		1,625,000
<b>Cost of Sales:</b>				
Opening Inventory	217,200		180,000	
Purchases	1,502,800		1,235,125	
Closing Inventory	(260,000)	(1,460,000)	(217,200)	(1,197,925)
<b>Gross Profit</b>		<b>540,000</b>		<b>427,075</b>
<b>As at 31<sup>st</sup> March</b>		<b>2025</b>		<b>2024</b>
Trade Payables		196,600		164,072

The trade receivable collection period has been computed as 35 days for 2025.

All purchases by the company were made on a credit basis.

**You are required to:**

- (a) **Calculate** the working capital cycle (in days) for the year ended 31<sup>st</sup> March 2025. (03 marks)
- (b) **State** two (02) strategies used in better working capital management. (02 marks)
- (Total 05 marks)

**Question 03**

**Liz Ltd.**, manufactures and sells **Product Q**. The Company is in the process of setting the budgets for 2026. During the year 2025, the company expects to sell 450,000 units which amounts to a 10% of market share. The marketing team believes that market will expand by 5% in 2026 and that company will continue to maintain the market share of 10% in 2026 as well. In order to maintain the market share at 10%, the company is expecting to incorporate only a 6% price increase in 2026 to the current selling price of Rs.500/-.

The closing inventory as at the end of 2025 is forecast to be 54,000 units. The company maintains closing inventory equivalent to 2 months sales of the year. It is estimated that 12,400 units of the inventory at the end of the year is likely to be obsolete and will need to be written off.

**You are required to:**

- (a) **Prepare** the Sales Budget in Units and Value for 2026. (03 marks)
- (b) **Prepare** the Production Budget for the year 2026 in units. (02 marks)
- (Total 05 marks)

**Question 04**

**C Ltd.** produces electric motors using highly skilled staff and unskilled staff. A special order for a large number of units has been received and this order has to be completed within 4 weeks.

This order has the following labour requirements:

Skilled Labour	20,000 hours
Unskilled Labour	60,000 hours

Skilled labour is paid at an hourly rate of Rs.500/- per hour with a guaranteed pay for 7,500 hours per week. Any shortfall in skilled labour hours would be covered through overtime, paid at the rate of 1.5 times the normal rate.

Unskilled labour is paid a monthly salary of Rs.45,000/- per month plus an incentive of Rs.50/- per hour worked. Unskilled labour is employed for 200,000 hours a month only and does not work overtime. If there is an unskilled labour shortfall, additional unskilled labour will be hired at the rate of Rs.350/- per hour.

Over the next 4 weeks there is estimated to be 12,000 hours of free skilled labour hours and 52,000 hours of free unskilled labour hours.

**You are required to:**

**Calculate** the relevant cost of labour for the special order.

(05 marks)

**End of Section A**

**Three (03) Compulsory Questions**

(Total 30 marks)

**SECTION B**

**Question 05**

**Toot PLC** is a Company listed in the Colombo Stock Exchange and the following information was extracted from the Financial Statements of **Toot PLC**:

- (1) There are 62 million ordinary voting shares in issue, which are currently trading at a market price of Rs.12.50 per share. The company paid a dividend of Rs.2/- per share for the last financial year. The dividends are expected to increase by 10% per annum.
- (2) **Toot PLC** has issued 10 million, 15% listed irredeemable preference shares which are trading at Rs.30/- per preference share. Annual dividend per share is Rs.3/-.
- (3) The company issued 4 million redeemable debentures with a coupon rate of 14% per annum at Rs.100/- per debenture. The current market price of a debenture is Rs.105/- and the redemption will happen in 4 years.

Assume the income tax rate as 30%.

**You are required to:**

**Calculate** the following:

- (a) Cost of Ordinary Shares (02 marks)
- (b) Cost of Preference Shares (02 marks)
- (c) Cost of Redeemable Debentures (03 marks)
- (d) Weighted Average Cost of Capital (WACC) using the market values (03 marks)

(Total 10 marks)

### Question 06

**Star Ltd.** manufactures and sells customized interior design related items. The following information is available with regard to the operations:

- (1) The company requests an advance of 40% when the orders are placed. The remaining 60% is being paid upon installation (end of the second month). An order will normally take 2 months to complete.
- (2) The full value of the orders received over the last few months and next few months are given below:

	Jul-25	Aug-25	Sep-25	Oct-25
<b>Full Value of Orders Received in (Rs.)</b>	12,000,000	25,000,000	40,000,000	60,000,000

- (3) The material cost is estimated to be 50% of the order value. Materials are purchased once an order is placed and payments are made when materials are purchased.
- (4) The products also incur other variable expenses which amount to 6% of the order value. These expenses are incurred during the first month after receiving the order and are settled in the following month.
- (5) The staff cost has two components. A fixed monthly amount of Rs.2,200,000/- payable at the end of each month. An incentive payment equivalent to 5% of the order value is paid when the interior designs are installed.
- (6) The company also incurs monthly fixed expenses of Rs.1,800,000/-. This includes depreciation of Rs.720,000/- per month. The fixed expenses are normally settled in the following month.
- (7) The opening cash balance as at 01<sup>st</sup> September 2025 was Rs.1,800,000/-.
- (8) Any excess cash will be held in a savings account earning an interest of 5% per annum, while the overdraft interest is 12% per annum. Interest is computed based on the balance as at the beginning of each month.

**You are required to:**

- (a) **Prepare** the cash budget for the months of September & October 2025. (08 marks)
  - (b) **Identify** one (01) advantage and one (01) disadvantage of using technology for budgeting purposes. (02 marks)
- (Total 10 marks)

### Question 07

**Tex Ltd.** manufactures and sells a product in three different sizes and the following details are extracted from the standard cost card of the product:

	Rs. (Per Unit)		
	Small	Medium	Large
Selling Price	6,000	10,000	12,500
Material X (at Rs.2,000/- per kg)	2,000	3,000	4,000
Material Y (at Rs.8,000/- per kg)	2,000	3,200	4,800
Direct Labour (at Rs.900/- per hour)	150	225	270
Variable Production Overheads	50	75	90
Budgeted Sales Units per Quarter	10,000	15,000	8,000

The availability of the three main resources has been estimated to be as follows:

Material X	52,000 kgs
Material Y	18,000 kgs
Direct Labour	7,500 hours

**You are required to:**

- (a) **Identify** the limiting factor/s with supporting calculations. (05 marks)
- (b) **Calculate** the optimal production mix based on the identified limiting factor/s. (05 marks)
- (Total 10 marks)

### End of Section B

### Two (02) Compulsory Questions

(Total 50 Marks)

### SECTION C

### Question 08

**H PLC** is a diversified conglomerate company. The company is currently in the process of finalizing the group capital investments budget and the following new project has been forwarded for investment appraisal.

This project entails the introduction of a new project, for which the launch cost is expected to be Rs. 300 million. The new product will require a new machine costing Rs. 150 million with an expected useful life time of 4 years, after which the machine will be sold for an estimated scrap value of Rs. 40 million and replaced with a new machine costing Rs. 220 million. The new machine will also have a 4 years lifetime. The company's depreciation policy is to depreciate machines on the straight-line basis over the lifetime of the machine. Capital allowances can be claimed at the rate of 20% per annum.

The standard cost card for the first year is given below:

	<b>Rs. (Per Unit)</b>
Direct Material	4,000
Direct Labour	3,000
Variable Overheads	1,000
<b>Total Variable Costs</b>	<b>8,000</b>
Fixed Costs	700
<b>Total Cost</b>	<b>8,700</b>
<b>Selling Price</b>	<b>10,000</b>

All costs are expected to increase at an inflation rate of 8% per annum. The selling price will remain constant in the year 1 and 2. A 20% increase in the selling price is expected, in the 3<sup>rd</sup> year followed by an annual increase of 8% from year 4 onwards.

The expected sales volumes are as follows:

Year	Units Sold
1	100,000
2	250,000
3	300,000
4	350,000
5	350,000

The cost of capital of the company is 18%.

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

**You are required to:**

- (a) **Calculate** the Net Present Value (NPV) of the new product over a 5 year timeline. (13 marks)
  - (b) **Assess** the viability of the above investment, based on the above computed NPV. (02 marks)
- (Total 25 marks)

### Question 09

A company produces 2 products using **Process I**. These products are further processed in **Process II** and **Process III**. The following information is provided for the products and **Process I**:

Product	Selling price per kg at split off of Process I	Cost of further processing (per kg)	Sales price per kg after further processing
Rx	Rs.300/-	Rs.250/-	Rs.700/-
Px	Rs.800/-	Rs.420/-	Rs.1,500/-

The total output from **Process I** during the period was 15,000 kg, made up of 6,000 kg of **Product Rx** and 9,000 kg of **Product Px**. The total output after further processing was 6,500 kg of **Product Rx** and 8,000 kg of **Product Px**.

Input to **Process I** during the period was as follows:

Direct Material @ Rs.300/- per kg	20,000 kg
Direct Labour	Rs.2,500,000/-
Variable Overheads	Rs.1,800,000/-

The normal loss is 10% from the input material and the a scrap value of normal loss is Rs.320/- per kg.

There were 2,300 units of closing Work-In-Progress in stock with the following levels of completion:

Direct Material	100%
Direct Labour	70%
Variable Overheads	60%

At the beginning of the period, there were 3,900 units of opening Work-In-Progress in stock, with the following levels of completion and values:

Direct Material	100% complete, valued at Rs.1,166,200/-
Direct Labour	50% complete, valued at Rs.236,090/-
Variable Overheads	40% complete, valued at Rs.130,160/-

**You are required to:**

(a) **Prepare** the Statement of Equivalent Units using the Weighted Average Method of inventory valuation. (06 marks)

(b) **Prepare** the **Process I** account using the sales value at split off point to allocate the joint costs.

(09 marks)

(Total 15 marks)

### Question 10

- (A) **XY Ltd.**, manufactures and sells **Product Z**. The following information has been extracted from the standard cost card of **Product Z**:

	Rs. (per unit)
<b>Direct Material:</b>	
Material A (2kg at Rs.500/- per kg)	1,000
Material B (0.5 kg at Rs.1,600/- per kg)	800
Direct Labour (15 minutes at Rs.900/- per hour)	225
Variable Overheads (at Rs.300/- per hour)	75
<b>Total Variable Cost</b>	<b>2,100</b>
Selling Price	2,750
<b>Contribution</b>	<b>650</b>

	Rs.
Budgeted Sales Units per month	50,000
Budgeted Fixed Overhead per month	18,700,000

Actual production / sales quantity for the month of August was 52,400 units and the actual performance is given below:

Sales (52,400 units)	138,860,000
<b>Direct Material:</b>	
Material A (108,500 kg)	52,297,000
Material B (23,900 kg)	39,315,500
Direct Labour Cost (16,700 hours)	14,445,500
Variable Overheads	5,177,000
Fixed Overheads	17,609,000

Following variances have been calculated by the management for the month ended August 2025:

Sales Margin Volume Variance	1,560,000	Favourable
Sales Price Variance	5,240,000	Adverse
Variable Overhead Expenditure Variance	167,000	Adverse
Variable Overhead Efficiency Variance	1,080,000	Adverse
Fixed Overhead Expenditure Variance	1,091,000	Favourable

**You are required to:**

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

- (i) Direct Material Price Variance. (02 marks)
- (ii) Direct Material Mix Variance. (02 marks)
- (iii) Direct Material Yield Variance. (02 marks)
- (iv) Direct Labour Rate Variance. (02 marks)
- (v) Direct Labour Efficiency Variance. (02 marks)

(b) **Prepare** the Operating Statement, reconciling the budgeted contributions and actual contributions. (05 marks)

(B) Triple Bottom Line is a framework that looks at sustainability of three aspects, People, Planet & Profit.

**You are required to:**

**State** five (05) Key Performance Indicators which measure People. (05 marks)

(Total 20 marks)

***End of Section C***

## Action Verbs Check List

Level	Action Verb	Definition	Detailed Instructions for Students
<b>REMEMBER</b> 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.
<b>UNDERSTAND</b> 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.
<b>APPLY</b> 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.

Level	Action Verb	Definition	Detailed Instructions for Students
<b>ANALYSE</b> 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.
<b>EVALUATE</b> 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.
<b>CREATE</b> 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.



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**SUGGESTED ANSWER**

**Level 03**

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**Four [04] Compulsory Questions**

**SECTION - A**

[Total 20 Marks]

**Answer to Question 01**

<b>Unit 1</b>	- <b>Introduction to Management Accounting, Relevant Cost in Decision Making and Decision Making under Risk &amp; Uncertainties.</b>
<b>Unit 8</b>	- <b>Recent Developments in Management Accounting.</b>
Learning outcomes	- Assess short-term decisions using contribution analysis. - Identify and explain recent developments in management accounting.

(a) (Rs.)

Per Unit	Product X1	Product X2
Selling Price	1,200	800
Variable Costs	(900)	(590)
Contribution	300	210

Contribution Per Unit	$\{(300 * 2) + (210 * 1)\} / 3 =$	270
Breakeven (Bundles) =	Fixed Cost / Contribution per bundle	
	$22,500,000 / 270$	
	83,333	Bundles
	<b>Product X1</b>	<b>Product X2</b>
No. of Units (Approx.)	55,555 units	27,778 units

(03 marks)

(b)

- (1) Digital Transformation.
- (2) Sustainability and ESG Reporting.
- (3) Artificial Intelligence and Machine Learning.
- (4) Real-time Reporting and Analysis.
- (5) Strategic Cost Management.
- (6) Broader Scope of Reporting.
- (7) Cybersecurity.
- (8) Behavioural Cost Management.
- (9) Remote Accounting Services.

(Any two points - 2 marks)

(Total - 5 marks)

**Answer to Question 02**

<b>Unit 7</b>	- <b>Working Capital Management.</b>
Learning outcomes	- Calculate the working capital cycle.
	- Explain strategies adopted to improve the working capital management.

**(a)** Compute the working capital cycle (in days) for FY2024/2025:

Inventory Residence Period	=	(Average Inventory / Cost of Sales) * 365 days [{(217,200 + 260,000) / 2} / 1,460,000] * 365 Days <b><u>60 Days</u></b>
Payables Settlement Period	=	(Average Payables / Credit Purchases) * 365 days [{164,072 + 196,600} / 2] / 1,502,800 * 365 days <b><u>44 Days</u></b>
Working Capital Cycle	=	Inventory Residence Period + Trade Receivables Collection Period – Trade Payables Settlement Period 60 days + 35 days – 44 days <b><u>51 Days</u></b>

**(03 marks)**

**(b)**

- (1) Collect from debtors faster.
- (2) Offer discounts to debtors to settle faster.
- (3) Delay the payments to creditors by negotiating longer credit terms.
- (4) Manage inventory more efficiently.
- (5) Reduce unnecessary expenses.
- (6) Strict collection policies.
- (7) Reduce inventory wastage.
- (8) Automate.
- (9) Improve cash and working capital forecasting.

**(Any 2 points, 02 marks)**

**(Total 05 marks)**

**Answer to Question 03**

**Unit 3 - Different Types of Budgets Planning & Controlling Vs Budgeting.**

Learning outcomes - Prepare functional budgets and cash budget.

**(a) Sales Budget:**

Market in 2026 $(450,000 / 10\% * 100\%) * (1 + 5\%)$	4,725,000 Units
<b>Budgeted Units in 2026 <math>(4,725,000 * @10\% \text{ market share})</math></b>	<b>472,500 Units</b>
Selling Price for 2026 $[500 * (1+6\%)]$	Rs.530/-
<b>Budgeted Sales in Rs. for 2026 <math>(472,500 * 530)</math></b>	<b>Rs.250,425,000/-</b>

**(03 marks)**

**(b) Production Budget:**

	<b>2026 (Units)</b>
Budgeted Sales	<b>472,500</b>
(-) Opening Inventory	(54,000)
Stock write-off	12,400
Closing Inventory $(472,500 / 12 * 2)$	78,750
<b>Production Budget</b>	<b>509,650</b>

**(02 marks)**

**(Total 05 marks)**

**Answer to Question 04**

**Unit 1 - Introduction to Management Accounting, Relevant Cost in Decision Making and Decision Making under Risk & Uncertainties.**

Learning outcomes - Assess relevant costs under different circumstances.

<b>Skilled Labour</b>	<b>Hours</b>	<b>Rate</b>	<b>Reason</b>	<b>Relevant Labour Cost</b>
For hours available from guaranteed hours	12,000		Irrelevant, as it has already been paid for. Not an incremental cost.	-
For Shortfall in hours - at 1.5 times for Overtime	8,000	750	Relevant - incremental cost	6,000,000
<b>Unskilled Labour</b>				
For hours available from guaranteed hours	52,000		Irrelevant, as it has already been paid for. Not an incremental cost.	-
Incentive Pay	52,000	50	Relevant - incremental cost	2,600,000
for Shortfall in hours - additional staff	8,000	350	Relevant - incremental cost	2,800,000
<b>Relevant Cost of Labour</b>				<b>11,400,000</b>

**(05 marks)**

**End of Section A**

**Answer to Question 05**

**Unit 5 - Sources of Capital and Cost of Capital.**  
 Learning outcomes - Calculate the cost of equity, debt, and WACC using book or market value.

(a) **Cost of Ordinary Shares**  $(K_e)$  =  $\frac{d_0(1+g)}{P_0} + g$   
 =  $\frac{2(1+10\%)}{12.5} + 0.10$   
 = **27.6%** (02 marks)

(b) **Cost of Preference Shares** =  $\frac{3}{30} \times 100$   
 = **10%** (02 marks)

(c) **Cost of Redeemable Debentures:**

Year	Description	CF	DF @ 14%	DCF	DCF 8%	DCF
0	Issue of Debentures	105	1	105	1	105
1 - 4	Interest (100 x 14% x 70%)	(9.8)	2.9137	(28.55)	3.3121	(32.45)
4	Redemption	(100)	0.5920	(59.20)	0.7350	(73.50)
				<b>17.25</b>		<b>- 0.95</b>

IRR =  $8\% + \left( \frac{6\% \times 0.95}{18.2} \right)$   
 = **8.313%** (03 marks)

(d) **WACC:**

	No. of Shares ('000)	Market Value (Rs.'000)	%	COC	WACC %
Ordinary Shares	62,000	775,000	51.84%	27.6	14.31%
Preference Shares	10,000	300,000	20.07%	10	2%
Debentures	4,000	420,000	28.09%	8.313	2.33%
	<b>76,000</b>	<b>1,495,000</b>			<b>18.64%</b>

**WACC = 18.64%** (03 marks)  
**(Total 10 marks)**

**Answer to Question 06**

<b>Unit 3</b>	-	<b>Different Types of Budgets Planning &amp; Controlling Vs Budgeting.</b>
Learning outcomes	-	Prepare functional budgets and cash budget.
	-	Explain the technology available for budgeting.

(a)

**Star Ltd.**

**Cash Budget**

**for the Months Ending September and October 2025**

<b>Cash Inflows:</b>	<b>Sep-25</b>	<b>Oct-25</b>
Sales <b>(W1)</b>	23,200,000	39,000,000
Savings Interest (1,800,000 x 5% x 1/12)	7,500	-
<b>Total Cash Inflow</b>	<b>23,207,500</b>	<b>39,000,000</b>
<b>Cash Outflows:</b>		
Material Cost <b>(W2)</b>	(20,000,000)	(30,000,000)
Other Variable Expenses <b>(W3)</b>	(1,500,000)	(2,400,000)
Staff Cost <b>(W4)</b>	(2,800,000)	(3,450,000)
Fixed Expenses Net of Depreciation (1,800 – 720)	(1,080,000)	(1,080,000)
OD Interest (372,500 x 12% x 1/12)	-	(3,725)
<b>Total Cash Outflow</b>	<b>25,380,000</b>	<b>36,933,725</b>
<b>Net Cash Inflow/(Outflow) During the Period</b>	<b>(2,172,500)</b>	<b>2,066,275</b>
Balance at the Beginning of the Month	1,800,000	(372,500)
<b>Balance at the End of the Period</b>	<b>(372,500)</b>	<b>(1,693,775)</b>

**Workings:**

**W1 – Sales:**

		<b>Sep-25</b>	<b>Oct-25</b>
<u>Advance Payments</u> For orders received in:			
Sep-25	40,000,000 * 40%	16,000,000	
Oct-25	60,000,000 * 40%		24,000,000
<u>Final Payments</u> For orders received in:			
Jul-25	12,000,000 * 60%	7,200,000	
Aug-25	25,000,000 * 60%		15,000,000
Cash Receipts		<b>23,200,000</b>	<b>39,000,000</b>

**W2 - Material Cost:**

<b>For Orders confirmed in:</b>		<b>Sep-25</b>	<b>Oct-25</b>
Sep-25	40,000,000 * 50%	20,000,000	
Oct-25	60,000,000 * 50%		30,000,000
		<b>20,000,000</b>	<b>30,000,000</b>

**W3 - Other Variable Expenses:**

<b>For Orders confirmed in:</b>		<b>Sep-25</b>	<b>Oct-25</b>
Aug-25	25,000,000 * 6%	1,500,000	
Sep-25	40,000,000 * 6%		2,400,000
		<b>1,500,000</b>	<b>2,400,000</b>

**W4 - Staff Cost:**

		<b>Sep-25</b>	<b>Oct-25</b>
Fixed Cost		2,200,000	2,200,000
<b>Incentives for Orders Confirmed in:</b>			
Jul-25	12,000,000 * 5%	600,000	
Aug-25	25,000,000 * 5%		1,250,000
		<b>2,800,000</b>	<b>3,450,000</b>

**(08 marks)****(b) Advantages:**

- (1) Automation will save time and effort.
- (2) Increase accuracy.
- (3) Provides insights and helps to identify areas for improvement.
- (4) Enables collaboration on budgets and facilitates communication among team members.
- (5) Promotes faster budgeting by providing the ability to work simultaneously.
- (6) Increase efficiency.
- (7) Facilitates better budget management.

**(01 mark for any point)****Disadvantages:**

- (1) Cost: the technology can be costly
- (2) Security Risks: if proper security measures are not taken, it may lead to security threats
- (3) Software may be designed for Generic Usage / Lack of Flexibility.
- (4) Over reliance technology.

**(01 mark for any point)****(Total 10 marks)**

**Answer to Question 07**

<b>Unit 1</b>	- <b>Introduction to Management Accounting, Relevant Cost in Decision Making and Decision Making under Risk &amp; Uncertainties.</b>
Learning outcomes -	Assess optimum product mix with a limiting factor, and multiple limiting factors using graphical linear programming.

**(a)**

	<b>Small</b>	<b>Medium</b>	<b>Large</b>	<b>Total Requirement</b>	<b>Availability</b>	<b>Surplus/ (Shortfall)</b>
Material X - kg per unit	1.00	1.50	2.00			
Material X - requirement per quarter	10,000	22,500	16,000	<b>48,500</b>	<b>52,000</b>	<b>3,500</b>
Material Y - kg per unit	0.25	0.40	0.60			
Material Y - requirement per quarter	2,500	6,000	4,800	<b>13,300</b>	<b>18,000</b>	<b>4,700</b>
Direct Labour - minutes per unit	10.00	15.00	18.00			
Direct Labour - requirement per quarter	100,000	225,000	144,000	<b>469,000</b>	<b>450,000</b>	<b>(19,000)</b>
<b>Direct Labour is the Limiting Factor.</b>						

**(05 marks)**

**(b)**

**Rs. (per unit)**

	<b>Small</b>	<b>Medium</b>	<b>Large</b>
Selling Price	6,000	10,000	12,500
Material X	(2,000)	(3,000)	(4,000)
Material Y	(2,000)	(3,200)	(4,800)
Direct Labour	(150)	(225)	(270)
Variable Production Overheads	(50)	(75)	(90)
<b>Contribution per unit</b>	<b>1,800</b>	<b>3,500</b>	<b>3,340</b>
Direct Labour minutes per Unit	10	15	18
Contribution per Limiting Factor	180.00	233.33	185.56
<b>Rank</b>	<b>3</b>	<b>1</b>	<b>2</b>

**Product Mix:**

<b>Medium</b>	15,000 x 15	225,000
<b>Large</b>	8,000 x 18	144,000
<b>Small</b>	8,100 x 10	81,000
		<b>450,000</b>

**(05 marks)**

**(Total 10 marks)**

**End of Section B**

Three [03] Compulsory Questions

**SECTION - C**

[Total 50 Marks]

**Answer to Question 08**

**Unit 6 – Investments Appraisal.**

Learning Outcome - Assess the application of tax and inflation on investment appraisal using only NPV technique.

(a)

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Contribution (W1)		200,000,000	340,000,000	800,640,000	1,008,805,000	1,089,511,500
Fixed Cost excl. tax (W2)		(42,500,000)	(45,900,000)	(49,572,000)	(53,537,760)	(57,820,781)
<b>Receipts before Tax</b>		<b>157,500,000</b>	<b>294,100,000</b>	<b>751,068,000</b>	<b>955,267,240</b>	<b>1,031,690,719</b>
Tax Expense (W3)		(38,250,000)	(79,230,000)	(216,320,400)	(280,580,172)	(296,307,216)
Launch Cost	(300,000,000)					
Machinery Cost	(150,000,000)				40,000,000	(220,000,000)
<b>Net Cash Flow</b>	<b>(450,000,000)</b>	<b>119,250,000</b>	<b>214,870,000</b>	<b>534,747,600</b>	<b>714,687,068</b>	<b>515,383,503</b>
Discount Factors @ 18%	1	0.8475	0.7182	0.6086	0.5158	0.4371
<b>Discounted Cash Flow</b>	<b>(450,000,000)</b>	<b>101,064,375</b>	<b>154,319,634</b>	<b>325,447,389</b>	<b>368,635,590</b>	<b>225,274,129</b>
<b>NPV</b>	<b>724,741,117</b>					

**Workings:**

Working 1 - Revenue	Year 1	Year 2	Year 3	Year 4	Year 5
Selling Price	10,000.00	10,000.00	12,000.00	12,960.00	13,996.80
Variable costs	8,000.00	8,640.00	9,331.20	10,077.70	10,883.91
<b>Contribution</b>	<b>2,000.00</b>	<b>1,360.00</b>	<b>2,668.80</b>	<b>2,882.30</b>	<b>3,112.89</b>
Volume	100,000	250,000	300,000	350,000	350,000
<b>Total Contribution</b>	<b>200,000,000</b>	<b>340,000,000</b>	<b>800,640,000</b>	<b>1,008,805,000</b>	<b>1,089,511,500</b>

Working 2 - Fixed Costs		Year 1	Year 2	Year 3	Year 4	Year 5
Total Fixed Cost (Year 1) (100,000 * 700)	70,000,000	-	-	-	-	-
(-) Depreciation (150,000,000 - 40,000,000 / 4)	(27,500,000)	-	-	-	-	-
<b>Cash Fixed costs</b>	<b>42,500,000</b>	<b>42,500,000</b>	<b>45,900,000</b>	<b>49,572,000</b>	<b>53,537,760</b>	<b>57,820,781</b>

Working 3 - Taxation	Year 1	Year 2	Year 3	Year 4	Year 5
Net Receipts before Tax	157,500,000	294,100,000	751,068,000	955,267,240	1,031,690,719
Capital Allowances @ 20% 150 million * 20% 220 million * 20%	(30,000,000)	(30,000,000)	(30,000,000)	(30,000,000)	(44,000,000)
Profit on Disposal of Machine				10,000,000	
<b>Taxable Profit</b>	<b>127,500,000</b>	<b>264,100,000</b>	<b>721,068,000</b>	<b>935,267,240</b>	<b>987,690,131</b>
<b>Tax Expense @ 30%</b>	<b>38,250,000</b>	<b>79,230,000</b>	<b>216,320,400</b>	<b>280,580,172</b>	<b>296,307,216</b>

<b>Profit on Disposal of Machine</b>	
Tax WDV at the end of Year 4 (150 Mn - (30 million * 4))	30,000,000
Scrap Value	40,000,000
<b>Taxable profit on disposal</b>	<b>10,000,000</b>

(13 marks)

**(b) Decision:**

Go ahead with the project since it generates a positive NPV.

(02 marks)

(Total 15 marks)

**Answer to Question 09**

**Unit 2 – Process Costing and Digital Costing.**

Learning outcomes - Calculate the cost of by products and joint products.

**(a)**

Normal Loss (20,000 \* 10%) = 2,000 kg

Abnormal Loss = 4,600 kg

**Statement of Equivalent Units**

<b>Units</b>	<b>Material</b>	<b>Labour</b>	<b>Variable Overheads</b>	<b>Total</b>
Finished Goods/ transferred to process II	15,000	15,000	15,000	
Closing Work-in-progress				
2,300 * 100%	2,300			
2,300 * 70%		1,610		
2,300 * 60%			1,380	
Abnormal Loss	4,600	4,600	4,600	
<b>Equivalent Units</b>	<b>21,900</b>	<b>21,210</b>	<b>20,980</b>	
<b>Costs</b>				
Input	6,000,000	2,500,000	1,800,000	10,300,000
Opening WIP	1,166,200	236,090	130,160	1,532,450
(-) Scrap value of Normal Loss (2,000 kg * 320 per kg)	(640,000)			(640,000)
<b>Total Cost</b>	<b>6,526,200</b>	<b>2,736,090</b>	<b>1,930,160</b>	<b>11,192,450</b>
Cost per Equivalent Unit	298.00	129.00	92.00	
<b>Valuation</b>				
Product Rx & Px	4,470,000.00	1,935,000.00	1,380,000.00	<b>7,785,000.00</b>
Closing Work-in-progress	685,400.00	207,690.00	126,960.00	<b>1,020,050.00</b>
Abnormal Loss	1,370,800.00	593,400.00	423,200.00	<b>2,387,400.00</b>

(06 marks)

**W-1 Allocation of Joint Costs:**

Product	Sales Value at Split off	Proportion	Cost
Rx	1,800,000	20%	1,557,000.000
Px	7,200,000	80%	6,228,000.000
	<b>9,000,000</b>	<b>100%</b>	<b>7,785,000.000</b>

**Process I Account:**

	Kg	Rs.		Kg	Rs.
Opening WIP	3,900	1,532,450	Finished Goods/ transferred to process II		
Material	20,000	6,000,000	<b>Rx (W-1)</b>	6,000	1,557,000.00
Labour		2,500,000	<b>Px (W-1)</b>	9,000	6,228,000.00
Variable OH		1,800,000	Normal Loss	2,000	640,000
			Abnormal Loss	4,600	2,387,400
			Closing WIP	2,300	1,020,050
	<b>23,900</b>	<b>11,832,450</b>		<b>23,900</b>	<b>11,832,450</b>

**(09 marks)****(Total 15 marks)****Answer to Question 10****Unit 4 – Standard Costing And Variance Analysis.****Unit 8 – Recent Developments in Management Accounting.**

Learning outcomes - Calculate basic, mix, yield, planning, and operating variances and discuss their importance.

- Identify suitable non-financial key performance indicators (KPIs) relating to sustainability and triple bottom-line performance (including those from social and environmental perspectives).

**(a)****(i)**

**Direct Material Price Variance =** Actual litres Used \* (standard price - actual price)

**Material A** 108,500 kg \* [500 - (52,297,000 / 108,500 kg)] 1,953,000 Favourable

**Material B** 23,900 kg \* [1,600 - (39,315,500 / 23,900 kg)] 1,075,500 Adverse

**Total** 877,500 **Favourable**

(ii)

**Direct Material Mix  
Variance =**

	Standard Price * [(total actual usage * standard mix) - (total actual usage * actual mix)]		
<b>Material A</b>	$500 * [((108,500 + 23,900) \text{ kg} * 2/2.5) - ((108,500 + 23,900) \text{ kg} * 108,500 / (108,500 + 23,900))]$	1,290,000	Adverse
<b>Material B</b>	$1,600 * [((108,500 + 23,900) \text{ kg} * 0.5/2.5) - ((108,500 + 23,900) * 23,900 / (108,500 + 23,900))]$	4,128,000	Favourable
<b>Total</b>		<u><u>2,838,000</u></u>	<b>Favourable</b>

(iii)

**Direct Material Yield  
Variance =**

	Standard Price * [(total standard usage * standard mix) - (total actual usage * standard mix)]		
<b>Material A</b>	$500 * [((2+0.5) \text{ kgs} * 52,400 \text{ units} * 2/2.5) - ((108,500 + 23,900) \text{ kg} * 2/2.5)]$	560,000	Adverse
<b>Material B</b>	$1,600 * [((2+0.5) \text{ kgs} * 52,400 \text{ units} * 0.5/2.5) - ((108,500 + 23,900) \text{ kg} * 0.5/2.5)]$	448,000	Adverse
<b>Total</b>		<u><u>1,008,000</u></u>	<b>Adverse</b>

(iv)

**Direct Labour Rate  
Variance =**

	Actual Hours Used x (standard rate - actual rate)		
	$16,700 \text{ hrs} * [900 - (14,445,500 / 16,700 \text{ hrs})]$	584,500	Favourable

(v)

**Direct Labour Efficiency  
Variance =**

	Standard Rate x (standard hrs - actual hrs)		
	$900 * [(52,400 \text{ units} * 0.25 \text{ hrs}) - 16,700 \text{ hrs}]$	3,240,000	Adverse

**(10 marks)**

(b)

### Operating Statement

	Rs.
Budgeted Contribution (650 * 50,000 units)	32,500,000
Sales Margin Volume Variance	1,560,000
	<b>34,060,000</b>
Sales Price Variance	(5,240,000)
Direct Material Yield Variance	(1,008,000)
Direct Material Mix Variance	2,838,000
Direct Material Price Variance	877,500
Direct Labour Rate Variance	584,500
Direct Labour Efficiency Variance	(3,240,000)
Variable Overhead Expenditure Variance	(167,000)
Variable Overhead Efficiency Variance	(1,080,000)
<b>Actual Contribution</b>	<u><u>27,625,000</u></u>

**(05 marks)**

**(B) Any 5 of the following for each aspect:**

- (1) Board diversity/Governance.
- (2) Quality of information shared with stakeholders.
- (3) Compliance with ethical practises/regulations.
- (4) Corporate social responsibility projects effectiveness/amount spent on CSR/volunteer hours.
- (5) Employee health & safety – number of incidents/ safety training hours provided/ number of downtime due to accidents.
- (6) Diversity & Inclusion – gender balance/ Ethnic representation/ Diversity and inclusion metrics.
- (7) Employee satisfaction/ employee turnover/ employee complaints & grievances/ Employee engagement scores.
- (8) Customer loyalty surveys/ customer complaints/ customer feedback index.
- (9) Ethical labor practices in the supply chain.
- (10) Employee turnover rate: measure workplace is stable and satisfied higher rate will indicate poor work condition or morale.

**(05 marks)**

**(Total 20 marks)**

***End of Section C***