



Association of Accounting Technicians of Sri Lanka

Level III Examination - January 2025

Suggested Answers

(302) MANAGEMENT ACCOUNTING AND FINANCE (MAF)

Association of Accounting Technicians of Sri Lanka

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

Level III Examination - January 2025

(302) 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)

$$\begin{aligned} \text{BEP} &= \frac{\text{Fixed Cost}}{\text{Contribution per unit}} \\ \text{BEP} &= \frac{5,616,000}{1,500 - (460+315+125+80)} \\ \text{BEP} &= \underline{\underline{10,800 \text{ Units}}} \end{aligned}$$

(03 marks)

(b)

Target contribution	60,000* (1,300 - (460+315+125+80))	19,200,000
(-) Fixed Cost		(5,616,000)
Expected / Target profit		13,584,000

(02 marks)
(Total 05 marks)

Suggested Answers to Question Two:

Chapter 7 - Working Capital Management

(a) Working Capital Cycle

		2024
Inventory residence period	$((825+740)/2)/3,912.5*365$ days	73 days
Trade receivables residence period	$((533+415)/2)/14,812.5*40%*365$ days	29 days
		102 days
(-) Trade payables residence period	$((762+646.5)/2)/3,997.5*365$ days	(64 days)
Length of working capital cycle		38 days

Workings

Cost of sales

$825+3,912.5-740$

3,997.50

(03 marks)

(b)

- Extending the credit period,
- Offering discount in early settlement,
- Factoring
- Invoice discounting
- Credit insurance

(02 marks)

(Total 05 marks)

Suggested Answers to Question Three:

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

Rs.000	Budget		Flex Budget	Actual	Variance
Volume	18,000		14,000	14,000	-
Sales	7,650	$7,650/18,000*14,000$	5,950	5,880	70A
Variable cost					
Material cost	2,052	$2,052/18,000*14,000$	1,596	1,696	100A
Labour cost	1,710	$1,710/18,000*14,000$	1,330	1,480	150A
Production overhead	360	$360/18,000*14,000$	280	250	30F

Total variable cost	4,122		3,206	3,426	220A
Contribution	3,528		2,744	2,454	290A
Fixed production	1,440		1,440	1,402	38F
Fixed distribution cost	796		796	796	-
Total fixed cost	2,236		2,236	2,198	38F
Net Profit	1,292		508	256	252A

(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.('000)
Direct Material $\left(\frac{168,000 \times 300}{1,000} \right) \times 600$	30,240
Inventory Cost	Sunk Cost
Selling Existing stock (5,000 x 300)	(1,500)
Direct Labour (168,000 x 250)	42,000
Compensation	(4,000)
Variable Overhead	33,600
Costing savings	100,340
Price offered by the supplier (168,000 x 800)	134,400

Since cost saving is lessor than price to be offered by S Ltd. the product should be manufactured internally.

(Total 05 marks)

End of Section A

Suggested Answers to Question Five:

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

Poppy Ltd.				
Cash Budget				
For the Quarter ending 31st March 2025				
Cash Budget	Jan-25	Feb-25	Mar-25	
Receipts				
Credit sales -W1	16,500	25,000	22,000	
Cash sales	4,000	800	1,900	
Interest income	20	40	73.50	
Total receipt	20,520	25,840	23,973.50	
Payments				
Raw materials - W2	2,029.50	3,036	7,012.50	
Salaries - W3	5,128	4,840	3,607	
Variable cost - W4	1,170	553.50	828	
Fixed expenses net of Depreciation	4,100	4,100	4,100	
Total payments	12,427.50	12,529.50	15,547.50	
Net cash flows	8,092.50	13,310.50	8,426	
Balance at the beginning of the month	8,000	16,092.50	29,403	
Balance at the end of the month	16,092.50	29,403	37,829	

W1 - Collection from supermarkets	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25
Supermarket sales	15,600	16,500	25,000	22,000	11,500	16,500
Collection 60D credit	-	-	15,600	16,500	25,000	22,000

W2 - Payment for raw material	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25
Supermarket sales	25,000	22,000	11,500	16,500	32,000
Cash sales	4,200	4,000	800	1,900	10,500
Total sales	29,200	26,000	12,300	18,400	42,500
Variable cost @ 30%	8,760	7,800	3,690	5,520	12,750

Material cost @ 55%	4,818	4,290	2,030	3,036	7,013
Payment in advance 30D	4,290	2,030	3,036	7,013	

W3 - Staff cost	Dec-24	Jan-25	Feb-25	Mar-25	
Variable staff cost @ 30%	2,628	2,340	1,107	1,656	
Fixed cost	2,500	2,500	2,500	2,500	
Total staff cost	5,128	4,840	3,607	4,156	
Payment 30D arrears	-	5,128	4,840	3,607	

W4 - Other variable cost	Dec-24	Jan-25	Feb-25	Mar-25	
Other variable cost @ 15%	1,314	1,170	554	828	

(Total 10 marks)

Suggested Answers to Question Six:

Chapter 1 - Introduction to the Management Accounting, Relevant Cost and Decision Making under risk and uncertainty

(A)

Direct material - Clay

Product	D. Material -		Total Requirement
	Demand	Clay	
TP1	500.00	1.00	500
		6,000/6,000	
TP2	300.00	1.00	300
		6,000/6,000	
DS1	250.00	3.00	750
		18,000/6,000	
DS2	150.00	2.50	375
		15,000/6,000	
Total required material			1,925
Direct material Availability			1,950
Excess			25

Direct Labour

Product	Demand	Labour Hrs	Total Requirement
			Hrs
TP1	500.00	4.00	2,000
		3,200/800	
TP2	300.00	6.00	1,800
		4,800/800	
DS1	250.00	10.00	2,500
		8,000/800	
DS2	150.00	15.00	2,250
		12,000/800	
Total required (Hrs)			8,550
Labour availability (Hrs)			8,000
Shortage			550

Limiting Factor is Labour

(04 marks)

(B)

	TP1	TP2	DS1	DS2
Selling Price	25,000	30,000	70,000	90,000
(-) Variable cost				
Clay	6,000	6,000	18,000	15,000
Paint	3,000	4,500	11,250	12,750
Labour	3,200	4,800	8,000	12,000
Oven cost	800	1,000	1,800	2,200
Variable OH	1,000	1,500	2,500	3,750
Total variable cost	(14,000)	(17,800)	(41,550)	(45,700)
Contribution	11,000	12,200	28,450	44,300
Labour hrs	4	6	10	15
Contribution- Labour Hr	2,750	2,033	2,845	2,953
Ranking	3	4	2	1

Product	Production Plan / Product Mix	Labour Hrs	Total
DS2	150.00	15.00	2,250.00
DS1	250.00	10.00	2,500.00
TP1	500.00	4.00	2,000.00
TP2	208.00	6.00	1,250.00
			8,000.00

(06 marks)
(Total 10 marks)

Suggested Answers to Question Seven:

Chapter 5 - Sources of Capital and Cost of Capital

(a)

$$K_e = \frac{D_0}{P_0} * 100$$

$$K_e = \frac{1.35}{7.5} * 100$$

$$K_e = \underline{\underline{18\%}}$$



(02 marks)

(b)

Investors' point of view						
Year	Description	Cash Flows	DF @ 10%	PV	DF @ 12%	PV
0	Issues of Debenture	110	1	110	1.000	110
1-5	Interest	(13.3)	3.79	(50.40)	3.605	(47.94)
		100*19%*70%				
5	Redemption	(100)	0.621	(62.1)	0.567	(56.7)
			NPV	(-2.5)		5.36

$$IRR = A + \left(\frac{NPVa}{NPVa - NPVb} \right) \times (B-A)$$

$$= 10\% + \left(\frac{2.51}{2.51 - (5.31)} \right) \times 12\% - 10\%$$

$$= 0.10 + 0.3208 \times 0.02$$

$$= \underline{10.64\%}$$

(03 marks)

(c)

	No. of Shares ('000)	Market Value (Rs. '000)	%	COC	WACC%
Ordinary Share	65,000	487,500	52.56%	18%	9.46%
Debentures	4,000	440,000	47.44%	10.63%	5.04%
		927,500			14.50%

WACC = 14.50%

(03 marks)

(d)

- Cost
- Profitability (Impact to Earnings per Share)
- Financial Risk.
- Dilution of Ownership.
- Asset Base.
- Duration.
- Gearing (Impact on debt to equity).
- Size and nature of the company's business (business risk).
- Availability of alternative sources of finance.
- Legal restrictions.



(02 marks)

(Total 10 marks)

End of Section B

Suggested Answers to Question Eight:

Chapter 6 - Capital Investments Appraisal

(a)

Rs.000	Investment	Working capital	Contribution	Sales & Distri.	Fixed cost	Income tax	Cash flows	COC @ 18%	Present Value	
Y0	(80,000)	(12,000)	-	-	-		(92,000)	1.000	(92,000)	
Y1	-		34,000	(8,000)	(2,000)	(1,200)	22,800	0.847	19,312	
Y2	-		46,750	-	(2,000)	(7,425)	37,325	0.718	26,799	
Y3	-		71,995	-	(2,000)	(14,998.50)	54,996.50	0.609	33,493	
Y4	-		67,881	-	(2,000)	(13,764.30)	52,116.70	0.516	26,892	
Y5	-	12,000	67,203	-	(2,000)	(19,560.90)	57,642.10	0.437	25,190	
									NPV	39,686

W1 - Contribution

	<u>Y1</u>	<u>Y2</u>	<u>Y3</u>	<u>Y4</u>	<u>Y5</u>
Demand	200,000	250,000	350,000	300,000	270,000
Price	600	660	726	798.60	878.46
Variable cost	(430)	(473)	(520.30)	(572.33)	(629.56)
Contribution per unit	170	187	205.70	226.27	248.90
Total contribution	34,000	46,750	71,995	67,881	67,203

W2 - Income tax

	<u>Y1</u>	<u>Y2</u>	<u>Y3</u>	<u>Y4</u>	<u>Y5</u>
Cash flows	24,000	44,750	69,995	65,881	65,203
Capital allowance 25%	(20,000)	(20,000)	(20,000)	(20,000)	-
Taxable profit	4,000	24,750	49,995	45,881	65,203
Income tax @ 30%	1,200	7,425	14,998.50	13,764.30	19,560.90

Tax saving / (Tax

Payment) (1,200) (7,425) (14,998.50) (13,764.30) (19,560.90)

W3 - Fixed cost

	<u>Y1</u>
Estimated cost with	
Dep*n	18,000
Dep*n	<u>(16,000)</u>
Fixed cost	<u><u>2,000</u></u>

(13 marks)

(b)

It is recommended to produce electronic meter investing in the new machine as it generates a positive NPV of Rs.39.86Mn.

(02 marks)
(Total 15 marks)

Suggested Answers to Question Nine:

Chapter 4 - Standard Costing & Variance Analysis

(a)

(i)

$$\begin{aligned}
 \text{SPV} &= (\text{Bud. Contri.} - \text{Act. Contri.}) \times \text{Act. Sales Qty} \\
 &= (165 - 145) \times 645,000 = \mathbf{12,900,000} \quad \mathbf{A} \\
 &= (761,100,000/645,000) - 1,035
 \end{aligned}$$

(02 marks)

(ii)

$$\begin{aligned}
 \text{DMPV} &= (\text{Std. Price} - \text{Act. Price}) * \text{Act. Use} \\
 \text{A} &= (180 - 194) * 1,235,000 = \mathbf{17,290,000} \quad \mathbf{A} \\
 &\quad 239,590/1,235 \\
 \text{B} &= (500 - 480) * 687,000 = \mathbf{13,740,000} \quad \mathbf{F} \\
 &\quad 329,760/687
 \end{aligned}$$

3,550,000 **A**

(02 marks)

(iii)

Material	Total Actual material usage x Actual mix	Total Actual material usage x standard mix	Variance Qty	Std Price	Variance Rs.	
A	1,235,000.00	1,281,333.33 1,922,000*2/3	46,333.33F	180.00	8,340,000.00	F
B	687,000.00	640,666.67 1,922,000*1/3	46,333.33A	500.00	23,166,666.67	A
	<u>1,922,000.00</u>	<u>1,922,000.00</u>	-		<u>14,826,666.67</u>	<u>A</u>

(03 marks)

(iv)

Material	Total Actual material usage x standard mix	Total Actual material usage x standard mix	Variance Qty	Std Price	Variance Rs.	
A	1,290,000.00 645,000*2	1,281,333.33	8,666.67F	180.00	1,560,000.00	F
B	645,000.00 645,000*1	640,666.67	4,333.33F	500.00	2,166,666.67	F
	<u>1,935,000.00</u>	<u>1,922,000.00</u>	<u>(13,000.00)</u>		<u>3,726,666.67</u>	<u>F</u>

(03 marks)

(b)

Operating Statement - Marginal

Costing

Budgeted Contribution	600,000*165	99,000,000
Sales contribution volume variance		7,425,000
Budgeted contribution of actual sales	645,000*165	<u>106,425,000</u>

Adjusting variances

	<u>A</u>	<u>F</u>
Direct material price variance	3,550,000	
Direct material mix variance	14,826,667	-
Direct material yield variance	-	3,726,667
Direct labour rate variance		3,252,000
Direct labour efficiency variance	675,000	

Variable OH expenditure variance	212,800		
Variable OH efficiency variance		330,000	
Sales contribution price variance	12,900,000	-	
	32,164,467	7,308,667	(24,855,800)
Actual contribution			81,569,200
			(05 marks)
			(Total 15 marks)

Suggested Answers to Question Ten:

Chapter 2 - Process Costing and Digital Costing

(A) (a)

Statement of Equivalent Units

Units:				
Equivalent Units Calculation	Raw Material	Direct Labour	Variable Production OH	Total
Input	35,200	35,200	35,200	
Closing Work-in-progress:				
4,800*100%	4,800			
4,800*60%		3,120		
4,800*30%			1,440	
Abnormal Loss	1,200	1,200	1,200	
Equivalent Units:	41,200	39,520	37,840	
Costs:				
Costs for the process	4,460,000	1,560,000	814,675	6,834,675
Opening Work in Progress	506,800	87,984	14,021	608,805
(-) Scrap Value of normal loss (2,000 m/r* Rs. 135)	(270,000)			(270,000)
	4,696,800	1647,984	828,696	7,173,480
Cost per kg	114	41.7	21.9	177.60
Allocation of costs				
	Raw Material	Direct Labour	Variable Production OH	Total
Transferred to Finished Goods	4,012,800	1,467,840	770,880	6,251,520
Closing Work-in-progress	547,200	130,104	31,536	708,840
Abnormal Loss	136,800	50,040	26,280	213,120

(06 marks)

(b)

Process 2 Account

Description	Units	Value	Description	Units	Value
Opening WIP	3,200	608,805	Output to FG	35,200	6,251,520
D. Material - P 1	40,000	4,460,000	Normal loss	2,000	270,000
D. Labour	-	1,560,000	Abnormal loss	1,200	213,120
Overhead	-	814,675	Closing WIP	4,800	708,840
	43,200	7,443,480		43,200	7,443,480

(08 marks)

(B)

Chapter 1 - Introduction to the Management Accounting, Relevant Cost and Decision Making under risk and uncertainty

Own Distribution

	1	2	3	
Sales – High	6,000	32,000	60,000	
Sales – Low	12,000	30,000	48,000	
Total Sales	18,000	62,000	108,000	
GP	5,400	18,600	32,400	
Distribution cost	(2,700)	(9,300)	(16,200)	
FC	(600)	(600)	(600)	
Profit	2,100	8,700	15,600	26,400

Authorized Distributor:

	1	2	3	
Sales – High	21,000	70,000	140,000	
Sales – Low	6,000	18,000	33,000	
Total Sales	27,000	88,000	173,000	
GP	8,100	26,400	51,900	
Distribution cost	(5,670)	(18,480)	(36,330)	
Profit	2,430	7,920	15,570	25,920

Proceed with Own Distribution network

(06 marks)

(Total 20 marks)

End of Section C

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