Association of Accounting Technicians of Sri Lanka

Level III Examination - July 2025

Suggested Answers

(302) MANAGEMENT ACCOUNTING AND FINANCE (MAF)

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THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

Level III Examination - July 2025

(302) MANAGEMENT ACCOUNTING AND FINANCE

SUGGESTED ANSWERS

Four (04) Compulsory Questions
(Total 20 Marks)

SECTION - A

Suggested Answers to Question One:

Chapter 7 - Working Capital Management

		2024/25 In days
Inventory residence period	(5,750+3,690)/2/40,000*365	43
Trade receivables collection period	(15,004+10,148)/2/52,400*365	88
		131
(-) Trade payables settlement period	(10,675+6,925)/2/33,648*365	95
Length of working capital cycle		**36**

Working - Calculating Credit purchases

	Rs.
Cost of sales	40,000.00
(+) Closing stock	5,750.00
(-) Openning stock	(3,690.00)
Purchases	42,060.00
80% credit purchase	**33,648.00**

(Total 05 marks)

Suggested Answers to Question Two:

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

Income Statement under Marginal Costing

				Rs.000
Sales	29,700*Rs.4,400			130,680
(-) Cost of sales	**Qty**	**Cost**		
Opening stock	2,000	3,375	6,750	
Production variable cost	31,200	3,375	105,300	

	33,200		112,050	
Closing stock	3,500	3,375	(11,813)	
Cost of sales				(100,238)
Contribution				**30,443**
Fixed cost				
Production OH			16,600	
Non-production OH			9,350	(25,950)
Profit				**4,493**

W 01 - Unit variable production cost

	Rs.
Direct Material	1,250.00
Direct Labour	1,500.00
Variable Overhead	625.00
	3,375.00

(Total 05 marks)

Suggested Answers to Question Three:

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

		Rs.
Sales		22,400.00
Variable pridction cost		(9,600.00)
Variable sales and distribution cost		(2,240.00)
Contribution		10,560.00
Saving from fixed production cost	5,750-3,200	2,550.00
Machinery disposal income		8,000.00
Saving from non-production fixed cost	9,900*60%	5,940.00
Compensation to be paid		(5,000.00)
Saving from Shutdown		11,490.00
Net benefit from shut down	**11,490-10,560**	**930.00**

It is recommended to shut down the business as it generates net benefit of Rs.930,000.

(Total 05 marks)

Suggested Answers to Question Four:

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

Production Budget	**August**	**September**
Market share	5.80%	6.00%
Budgeted sales	23,200.00	24,000.00
	400,000*5.8%	400,000*6
(+) Closing stock	9,600.00	9,920.00
	24,000/30*12	24,800/30*12
(-) Opening stock	(4,200.00)	(9,600.00)
Budgeted production	28,600.00	24,320.00

Working

Market Share = 22,000*100 = 400,000
5.5

October Sale = 400,000*6.2% = 24,800

(Total 05 marks)

End of Section A

Suggested Answers to Question Five:

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

(a)

Direct material - Fruit A

Product	Demand	Fruit A	Total Requirement
Jam 1	3,000.00	0.50 250/500	1,500.00
Jam 2	6,000.00	0.80 400/500	4,800.00
Jam 3	4,000.00	0.50 250/500	2,000.00
Total required material			8,300.00
Fruit A - Availability			9,000.00
Excess			(700.00)

Direct material - Fruit B

Product	Demand	Fruit B	Total Requirement
Jam 1	3,000.00	0.50 400/800	1,500.00
Jam 2	6,000.00	0.40 320/800	2,400.00
Jam 3	4,000.00	0.60 480/800	2,400.00
Total required material			6,300.00
Fruit B - Availability			5,900.00
Shortage			400.00

Limiting Factor is fruit B

(03 marks)

(b)

	Jam 1	Jam 2	Jam 3
Selling Price	1,300.00	1,600.00	1,900.00
(-) Variable cost			
Fruit A	250.00	400.00	250.00
Fruit B	400.00	320.00	480.00
Other direct material	150.00	180.00	200.00
Labour	90.00	120.00	120.00
Variable OH	18.00	24.00	24.00
Total variable cost	(908.00)	(1,044.00)	(1,074.00)
Contribution	392.00	556.00	826.00
Fruit B requirment	0.50	0.40	0.60
Contribution- Fruit B/Kg	784.00	1,390.00	1,376.67
Ranking	***3***	***1***	***2***

Product	**Production Plan**	**Fruit B**	**Total**
Jam 2	6,000.00	0.40	2,400.00
Jam 3	4,000.00	0.60	2,400.00
Jam 1	2,200.00	0.50	1,100.00
			5,900.00

(05 marks)

(c)

Shortage is only Fruit B in producing Jam 1 (800 bottles). The company earns a contribution of Rs.292/- per bottle when purchase of Fruit B from outside. Therefore, the company should recommend to purchase 800 kg of Fruit B at Rs.1,000/- per kg.

(02 marks)
(Total 10 marks)

Suggested Answers to Question Six:

Chapter 5 - Sources of Capital and Cost of Capital

(a)

$$K_e = \frac{D_0\ (1+g)}{P_0} + g \quad * 100$$

$$K_e = \frac{2.10*(1+0.05)}{14.00} + 0.05 \quad * 100$$

$$K_e = 20.75\%$$

(02 marks)

(b)

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

$$Kp = \frac{3.75}{30.00} * 100$$

$$Kp = 12.50\%$$

(02 marks)

(c)

Cost of Redeemable Debentures

Year	Description	CF	DF @12%	DCF	DCF 10%	DCF
0	Issue of Debentures	95	1	95	1	95
1-3	Interest (12*70%)	(8.4)	2.402	(20.18)	2.486	(20.88)
3	Redemption	(100)	0.712	(71.2)	0.751	(75.1)
				3.62		(0.98)

IRR = 10% + $\frac{2\%*0.98}{4.6}$

= 10.43%

(03 marks)

(d)

Source	**Market Value Rs. Mn**		**COC**	**WACC**
Ordinary shares	210.00	55%	20.75%	11.41
Preference shares	60.00	16%	12.50%	2
Debentures	114.00	29%	10.43%	3.02
	384.00			16.43

WACC = 16.43%

(03 marks)
(Total 10 marks)

Suggested Answers to Question Seven:

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

Cash Budget	**Jul-25**	**Aug-25**	**Sep-25**
Receipts			
Recovery from debtors -W1	5,200,000	4,800,000	4,500,000
Interest income @ 4%pa	5,000	6,333	5,071
Total receipt	**5,205,000**	**4,806,333**	**4,505,071**

Payments			
Raw materials - W2	1,940,000	1,825,000	1,900,000
Outsourced manufacturing cost - W3	1,440,000	1,350,000	1,500,000
Delivery cost - W4	225,000	250,000	237,500
Staff salaries	800,000	1,360,000	800,000
Fixed expenses	400,000	400,000	400,000
Total payments	**4,805,000**	**5,185,000**	**4,837,500**
Net cash flows	400,000	(378,667)	(332,429)
Balance at the beginning of the month	1,500,000	1,900,000	1,521,333
Balance at the end of the month	1,900,000	1,521,333	1,188,904

W1 - Recovery from debtors

debtors	**May-25**	**Jun-25**	**Jul-25**	**Aug-25**	**Sep-25**
Sale value Rs.	**5,200,000**	**4,800,000**	**4,500,000**	**5,000,000**	**4,750,000**
Recovery after 60days	-	-	5,200,000	4,800,000	4,500,000
	-	-	5,200,000	4,800,000	4,500,000

W2 - Payment for raw material

raw material	**May-25**	**Jun-25**	**Jul-25**	**Aug-25**	**Sep-25**	**Oct-25**
Sale value Rs.	**5,200,000**	**4,800,000**	**4,500,000**	**5,000,000**	**4,750,000**	**4,000,000**
Material cost 40%	2,080,000	1,920,000	1,800,000	2,000,000	1,900,000	1,600,000
Purchase value 1 month in advance	1,920,000	1,800,000	2,000,000	1,900,000	1,600,000	2,400,000
25% payment	480,000	450,000	500,000	475,000	400,000	600,000
75% balance payment after 60 days			1,440,000	1,350,000	1,500,000	1,425,000
	480,000	450,000	1,940,000	1,825,000	1,900,000	2,025,000

W3 - Outsourced manufacturing cost

manufacturing cost	**May-25**	**Jun-25**	**Jul-25**	**Aug-25**	**Sep-25**
Sale value Rs.	**5,200,000**	**4,800,000**	**4,500,000**	**5,000,000**	**4,750,000**
Manufacturing cost 30%	1,560,000	1,440,000	1,350,000	1,500,000	1,425,000
Settlement after 30 days	-	1,560,000	1,440,000	1,350,000	1,500,000

W4 - Delivery cost	Jul-25	Aug-25	Sep-25
Sale value Rs.	**4,500,000**	**5,000,000**	**4,750,000**
Delivery cost 5%	225,000	250,000	237,500

(Total 10 marks)

End of Section B

Suggested Answers to Question Eight:

Chapter 6 - Capital Investments Appraisal

(a)

	0	1	2	3	4	5
Investment	(25,000)					
Working Capital	(4,000)					4,000
Launching Cost	(3,000)					
Contribution **(W 1)**		13,300	13,600	23,700	28,900.80	19,290
Fixed Cost		(3,000)	(3,000)	(3,000)	(3,000)	(3,000)
Distribution Cost **(W 2)**		(1,805)	(2,000)	(3,000)	(4,320)	(3,600)
Income Tax **(W 3)**		(673.50)	(705)	(3,435)	(4,599.24)	(3,807)
	(32,000)	7,821.5	7,895	14,265	16,981.56	12,883
DF @ 20%	1	0.833	0.694	0.579	0.482	0.402
DCF	(32,000)	6,515	5,479	8,259	8,185	5,179
Net Present Value	**1,617**					

NPV = 1,617

(13 marks)

(b)

It is recommended to proceed with the new product as it generates positive NPV of Rs.1,617,000.

(02 marks)

Working

W – 1 Contribution

	1	2	3	4	5
Selling Price	95	100	120	120	120
VC	(60)	(66)	(72.6)	(79.86)	(87.85)
Total Contribution	35	34	47.4	40.14	32.15

W – 2 Distribution Cost

	1	2	3	4	5
Sales	36,100	40,000	60,000	86,400	72,000
Distribution Cost	1,805	2,000	3,000	4,320	3,600

W - 3 Income Tax

	1	2	3	4	5
Profit before Depreciation	8,495	8,600	17,700	21,580.80	12,690
Capital Allowance	(6,250)	(6,250)	(6,250)	(6,250)	
	2,245	2,350	11,450	15,330.80	12,690
Tax @ 30%	**673.50**	**705**	**3,435**	**4,599.24**	**3,807**

(Total 15 marks)

Suggested Answers to Question Nine:

Chapter 4 - Standard Costing & Variance Analysis

(a)

(i)

DMPV = Std. Price - Act. Price * Act. Use

Material								
1B	=	500.00	-	480.00 2,265,600/4,720	*	4,720.00	=	94,400.00 F
Material 2B	=	300.00	-	302.00 4,046,800/13,400	*	13,400.00	=	26,800.00 A
								67,600.00 F

(02 marks)

(ii)

Material Mix Variance

Material	AUAM	AUSM	Variance Qty	Std Price	Variance Rs.
Material 1B	4,720	4,530 18,120*1/4	190A	500.00	95,000 A
Material 2B	13,400	13,590 18,120*3/4	190F	300.00	57,000 F
	18,120	18,120	-		**38,000 A**

(03 marks)

(iii)

Material Yield Variance

Material	SUSM	AUSM	Variance Qty	Std Price	Variance Rs.
Material A	4,600 4,600*1	4,530	70F	500.00	35,000 F
Material B	13,800 4,600*3	13,590	210F	300.00	63,000 F
	18,400	18,120	280F		**98,000 F**

(03 marks)

(iv)

DLRV = (Std. Rate - Act. Rate) * Act. Hrs Paid

DLRV = (1,200 - 1,180) * 2,490 = **49,800** F
2,938,200/2,490

(02 marks)

(b)

Operating Statement - Marginal Costing

Budgeted Contribution	4,000*1,875			7,500,000
Sales contribution volume variance				1,125,000
Budgeted contribution of actual sales	4,600*1,875			8,625,000
Adjusting variances		**A**	**F**	
Direct material price variance			67,600	
Direct material mix variance		38,000		
Direct material yield variance			98,000	
Direct labour rate variance			49,800	
Direct labour efficiency variance		228,000		
Variable OH expenditure variance		9,960		
Variable OH efficiency variance		47,500		
Sales contribution price variance		920,000		
		1,243,460	215,400	(1,028,060)
Actual contribution				**7,596,940**

(05 marks)
(Total 15 marks)

Suggested Answers to Question Ten:

Chapter 2 - Process Costing and Digital Costing

(A) ***(a)***

Statement of Equivalent Units

		Direct Material		Direct labour		Overhead	
	Total Qty	**Degree of Completion**	**Equivalent Units**	**Degree of Completion**	**Equivalent Units**	**Degree of Completion**	**Equivalent Units**
Opening stock - Output	4,600	100%	4,600	100%	4,600	100%	4,600
Fresh - Output	21,900	100%	21,900	100%	21,900	100%	21,900
Normal loss 5% of input	1,400	-	-		-		
Abnormal loss	1,500	100%	1,500	100%	1,500	100%	1,500
Closing WIP	3,200	100%	3,200	70%	2,240	35%	1,120
Total input	**32,600**		**31,200**		**30,240**		**29,120**

Computation of unit cost	D. Material	D. Labour	Overhead	Total
Opening stock	657,350	156,960	46,090	860,400
Cost of Input	3,706,050	1,476,000	361,590	5,543,640
Sale of scrap units @175/-	(245,000)	-	-	(245,000)
Net cost of input	4,118,400	1,632,960	407,680	6,159,040
Expected Equivalent Units	31,200	30,240	29,120	
Cost of unit produced	**132.00**	**54.00**	**14.00**	**200.00**

(06 marks)

(b)

Description	Units	Value	Description	Units	Value
Opening inventory	4,600	860,400	Output to FG	26,500	5,300,000
D. Material	28,000	3,706,050	Normal loss	1,400	245,000
D. Labour	-	1,476,000	Abnormal loss	1,500	300,000
Overhead	-	361,590	WIP B/F	3,200	559,040
	32,600	6,404,040		32,600	6,404,040
WIP C/F	3,200	559,040			

Process 1 Accounts

Working

Statement of evaluation	D. Material			D. Labour			Overhead			Total
	Eus	Cost	Total	Eus	Cost	Total	Eus	Cost	Total	
Output	26,500	132.00	3,498,000	26,500	54.00	1,431,000	26,500	14.00	371,000	5,300,000
Abnormal loss	1,500	132.00	198,000	1,500	54.00	81,000	1,500	14.00	21,000	300,000
Closing WIP	3,200	132.00	422,400	2,240	54.00	120,960	1,120	14.00	15,680	559,040
			4,118,400			1,632,960			407,680	

(08 marks)

(B)

BEP in Sales = $\frac{\text{Fixed Cost}}{\text{Cum. PV Ratio}}$

= $\frac{9,600,000}{34.52\%}$

= **27,809,965**

Break even sales		Total Sales	BEP Sales Rs.
P	27,809,965	108,000,000	**9,932,130**
Q	27,809,965	194,400,000	**17,877,834**
		302,400,000	

W 1 - Cumulative PV Ratio

	P	Q
Selling price	4,500.00	5,400.00
Material	(1,400.00)	(1,600.00)
Labour	(1,000.00)	(1,400.00)
Variable OH	(600.00)	(500.00)
Contribution	**1,500.00**	**1,900.00**
Sales Ratio	2	3

Cum. PV Ratio = $\frac{1,500*2 + 1,900*3}{4,500*2 + 5,400*3}$

= $\frac{8,700.00}{25,200.00}$

= 34.52%

Or

Total Sales = 302,400,000

Total Contribution = (1,500*24,000) + (1,900*36,000)

= 104,400,000

PV Ratio = $\frac{104,400,000}{302,400,000}$ * 100%

= 34.52%

(06 marks)
(Total 20 marks)

End of Section C

Notice:

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