

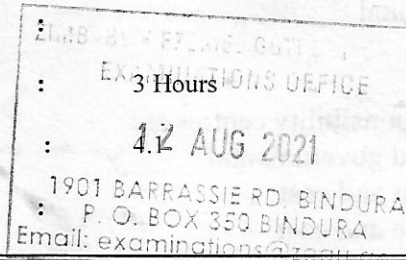


ZIMBABWE EZEKIEL GUTI UNIVERSITY
FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE : CAC403
COURSE TITLE : STRATEGIC PERFORMANCE MANAGEMENT
SPECIAL REQUIREMENTS
DURATION : 3 Hours
LEVEL :
DATE : 4.2 AUG 2021



INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue
2. Use of silent, non-programmable calculators is allowed
3. Answer ALL questions in both Section A and Section B.
4. Begin each question on a new page.
5. The number of marks for each question or part question is shown in brackets []

SECTION A

Answer all questions in this section. Each question carries 2 marks.

Select the most appropriate answer

1. When the units within an organization are independent, decentralization is likely to be
 - A. Least beneficial and least costly
 - B. Most beneficial and most costly
 - C. Most beneficial and least costly
 - D. Least beneficial and most costly

2. Holding all other factors constant, ROI would necessarily be increased by
 - A. Increasing revenue
 - B. Decreasing revenue
 - C. Increasing invested capital
 - D. Both A and B

3. The major types of responsibility centres are
 - A. Profit, not for profit and governmental
 - B. Profit, sales, investment and cost
 - C. Revenue, profit, income and cost
 - D. Revenue, profit, cost and investment

4. Mclean Company uses 15% rate for computing imputed interest on its invested capital. In 2019, the company had income of \$750 000 and residual income of \$330 000. Its invested capital was
 - A. \$3 000 000
 - B. \$2 800 000
 - C. \$450 000
 - D. None of the above

5. Which of the following statements regarding the objectives of transfer pricing system are correct?
 - (i) A transfer pricing system should encourage output at an organisation-wide profit-maximising level
 - (ii) A transfer pricing system should encourage divisions to make autonomous decisions
 - (iii) A transfer pricing system should encourage dysfunctional decision making
 - (iv) A transfer pricing system should enable the realistic measurement of divisional profits
 - A. (i) and (iv) only
 - B. (i), (iii) and (iv) only

- C. (i), (ii) and (iv) only
- D. (i), (ii), (iii) and (iv)

6. Controllability and variable costs are different in that

- A. Managers have more influence over variable costs than controllable costs
- B. Variable costs may be with production or administration whereas controllable costs are only production related costs
- C. Managers have controllability over more than just variable costs
- D. Variable costs are only short run

7. A budget that is often changed at the end of a reporting period is called

- A. A balanced budget
- B. A cost budget
- C. A flexible budget
- D. None of the above

8. Which of the following is decentralization least likely to accomplish?

- A. Provide a pool of managerial talent
- B. Shorten decision making time
- C. Make optimal decisions more likely
- D. Heighten goal congruence

9. Delly Company has an invested capital of \$8 000 000, an income percentage of revenues of 6%, and ROI of 15%. Revenues were _____

- A. \$20 000 000
- B. \$3 200 000
- C. \$12 000 000
- D. \$4 000 000

10. Which of the following are benefits of budgeting?

- (i) It helps coordinate the activities of different departments
- (ii) It fulfills legal reporting obligations
- (iii) It establishes a system of control
- (iv) It is a starting point for strategic planning

- A. (i) and (iv)
- B. (i) and (iii)
- C. (ii) and (iii)
- D. (ii) and (iv)

[Total: 20 Marks]

SECTION B

Answer all questions in this section

Question One

Lesting Regional Authority (LRA) is responsible for the provision of a wide range of services in the Lesting Region, which is based in the south of the country 'Alaia'. These services include, amongst other things, responsibility for residents' welfare, schools, housing, hospitals, roads and waste management. Over recent months the Lesting region experienced the hottest temperatures on record, resulting in several forest fires, which caused damage to several schools and some local roads. Unfortunately, these hot temperatures were then followed by flooding, which left a number of residents without homes and saw higher than usual numbers of admissions to hospitals due to the outbreak of diseases.

These hospitals were full and some patients were treated in tents. Residents have been complaining for some years that a new hospital is needed in the area. Prior to these events, LRA was proudly leading the way in a new approach to waste management, with the introduction of its new 'Waste Recycling Scheme'. Two years ago, it began phase 1 of the scheme and half of its residents were issued with different coloured waste bins for different types of waste. The final phase was due to begin in one month's time. The cost of providing the new waste bins is significant but LRA's focus has always been on the long-term savings both to the environment and in terms of reduced waste disposal costs. The LRA is about to begin preparing its budget for the coming financial year, which starts in one month's time. Over recent years, zero-based budgeting (ZBB) has been introduced at a number of regional authorities in Alaia and, given the demand on resources which LRA faces this year, it is considering whether now would be a good time to introduce it.

REQUIRED

- (a) Describe the main steps involved in preparing a zero-based budget. [6 marks]
- (b) Discuss the problems which LRA may encounter if it decides to introduce and use ZBB to prepare its budget for the coming financial year [16 marks]
- (c) Distinguish clearly between a profit centre and an investment centre [5 marks]
- (d) Outline THREE potential benefits of introducing zero-based budgeting at LRA [3 marks]

[Total: 30 marks]

Question Two

Mobe Co manufactures electronic mobility scooters. The company is split into two divisions: the scooter division (Division S) and the motor division (Division M). Division M supplies motors to both Division S and to external customers. The two divisions run as autonomously as possible, subject to the group's current policy that Division M must make internal sales first before selling outside the group, and that Division S must always buy its motors from Division M. However,

this company policy, together with the transfer price which Division M charges Division S, is currently under review. Details of the two divisions are given below:

Division S

Division S's budget for the coming year shows that 35 000 electronic motors will be needed. An external supplier could supply these to Division S for \$800 each.

Division M

Division M has the capacity to produce a total of 60 000 electronic motors per year. Details of Division M's budget, which has just been prepared for the forthcoming year, are as follows:

Budgeted sales volume (units)	60 000
Selling price per unit for external sales of motors	\$850
Variable costs per unit for external sales of motors	\$770

The variable cost per unit for motors sold to Division S is \$30 per unit lower due to cost savings on distribution and packaging. Maximum external demand for the motors is 30 000 units per year.

REQUIRED

- (a) Assuming that the group's current policy could be changed, advice, using suitable calculations, the number of motors which Division M should supply to Division S in order to maximize group profits. Recommend the transfer price or prices at which these internal sales should take place.

Note: All relevant workings must be shown.

[10 marks]

- (b) PB is a car manufacturing company. PB uses a system of standard costing to set its budgets. Budgets are set annually by the Finance department and approved by the Board of Directors of PB. The Finance Department prepares variance reports each month for review at the Board of Directors meeting, where actual performance is monitored by comparison to budgeted figures. A new Finance Director has recently joined PB from a competitor organization where there was Total Quality Management culture. The new Finance Director is keen to discuss the implementation of Kaizen costing at the next meeting of the Board of Directors. The new Finance Director would like to review the current planning and control system at PB with a view to making changes so that it could support Kaizen costing concepts.

REQUIRED

- (i) Explain two basic principles of Total Quality Management

[4 marks]

- (ii) Explain the advantages of Total Quality Management to PB car manufacturing company. [5marks]
- (iii) Explain THREE changes required to PB's planning and control system to support the adoption of Kaizen costing concepts [6 marks]

[Total 25 marks]

Question Three

Stoneland Company is in the Civil engineering business. In proposing a Balanced Scorecard for measurement of the company's performance, managers interviewed many current and potential customers. They found that some customers were highly price sensitive and wanted to continue business as usual. These customers developed internally all the specifications for their bids, put a detailed bidding document out to tender, and chose, from among all qualified contractors, the one submitting the lowest bid. As one price-sensitive customer said during an interview:

"We don't have the resources of time for doing anything fancy with our suppliers. Our business has become ruthlessly competitive with price and margin reductions in recent years, and the need for us to cut costs wherever we can. We cannot afford to choose anyone but the lowest price supplier. But, of course, we still expect quality standards and deadlines to be met".

But the interviews also revealed that several large and important customers were looking for something different. They said:

"we have to cut costs wherever we can, but we are looking to our suppliers to help us. If it is cheaper and more effective for our suppliers to take over some of our engineering functions, we should let them do that and reduce our internal engineering staff accordingly. We want suppliers that can suggest new ways of doing business, and who can take advantage of new technologies".

Although price would still be a factor with this second category of customer, a contractor's ability to offer innovative and more long-term cost-effective approaches would be a strong influence on selection.

REQUIRED

11. As part of a Balanced Scorecard, you are to identify objectives and measurement for

- E. the Customer perspective
- F. Internal Business Processes perspective for Stoneland for the two separate types of customer.

The Financial, and Learning and Growth perspectives need not be addressed

[10 marks]

12. Using examples of measures within the four Balanced Scorecard perspectives for a company of your choice (not Stoneland), you should demonstrate how reaching an objective in a lower perspective could contribute to the consequential achievement of an

objective in the next higher perspective, and i.e., three separate cause and effect relationships should be explained. [15 marks]

[Total 25 marks]

END OF EXAMINATION QUESTION PAPER