



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 : 4.1
DATE : 16 FEB 2022

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. An incremental budgeting system is:

- A. a system that budgets only for the extra costs associated with a particular plan.
- B. a system that budgets for the variable manufacturing costs only.
- C. a system that prepares budgets only after the manager responsible has justified the continuation of the relevant activity.
- D. a system that prepares budgets by adjusting the previous year's values by expected changes in volumes of activity and price/inflation effects.

2. Which of the following perspectives are encompassed in a balanced scorecard?

- (i) Customer perspective,
- (ii) Financial perspective,
- (iii) Supplier perspective.

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

3. Activity-based costing is:

- A. a method of total costing which attributes costs to cost units using multiple activity drivers;
- B. a method of costing which is used to recognise the effects of changes in output activity and their effect on total costs;
- C. a method of costing which is used to calculate the cost per unit in organisations which have only one single activity;
- D. a method of cost accounting which derives unit costs according to planned outputs.

5. The minimum transfer price, or floor, is the transfer price that would leave the.....no worse off if the good is sold to an internal division.

- A. Buying division
- B. Manufacturing division
- C. Selling division
- D. Distribution division

6 The maximum transfer price, or ceiling, is the transfer price that would leave the no worse off if an input is purchased from an internal division.

- A. Buying division
- B. Manufacturing division
- C. Selling division
- D. Distribution division

7 is the difference between operating income and the minimum dollar return required on a company's operating assets

- A. Return on capital
- B. Residual income
- C. Operating income
- D. None of the above

8. The primary objective of Management Accounting is to:

- A. Maximize profits
- B. Minimize losses
- C. Maximize profits or minimize losses
- D. All of the above

9. Which of the following costs is relevant in decision-making?

- A. Committed costs
- B. Accounting costs
- C. Historical costs
- D. Cash costs

10. R Ltd. Sold goods for \$3 000 000 in a year. In that year the variable costs were \$600 000 and Fixed Cost is \$800 000. Find P/V ratio

- A. 47%
- B. 80%
- C. 20%
- D. 26%

[Total: 20 marks]

SECTION B

Answer all questions in this section

Question One

EF is a division of a large group, and is in the food processing industry. It employs about 1,000 people in a number of plants in isolated rural areas, processing and packing food sold mainly through supermarkets. There has recently been a considerable body of new regulation, following a series of incidents, some of which were extensively publicised. These have raised significant concern regarding public health.

There have also been sudden major changes in demand, to the extent that it now appears unlikely that demand would exceed 50 per cent of budget. Indeed, it seems that future demand may never again reach these levels. Hence it is clear that major cuts are needed in capacity. The budget for the financial year that started one month ago was prepared on the assumption that demand would be similar to previous demand.

Requirements

(a) Explain your role, as divisional management accountant of EF, in helping management within EF to produce and justify to head office a preferred solution to the problem of overcapacity. Recommend how activity should be reported against the original budget and any revised forecast during the remainder of the financial year. **[14 marks]**

(b) Explain how a senior management accountant at head office would review the proposed solution to the overcapacity problem, and determine the solution's adequacy and effectiveness. **[6 marks]**

[Total 20marks]

Question Two

PQR is a company that develops bespoke educational computer software. The company is based in Germany. It has recently acquired two companies: W and Z.

W is a well-established company that is also based in Germany. It develops educational computer software and was a direct competitor of PQR.

Z, which is based in Malaysia, is a new but rapidly growing company that develops off the shelf educational software and also produces CD ROMs. Z was acquired so that it could produce CD ROMs for PQR and W.

The Managing Director of PQR has now realized that the acquisition of these two companies will cause problems for him in terms of planning, control and decision making. He is thinking of implementing a decentralised structure but is unsure of the advantages and disadvantages of such a structure, of how much autonomy to grant the new companies, and also which performance measure to use to appraise their performance. Consequently he has contacted you, the Finance Director of PQR, for help.

Requirements

(i) Explain advantages and disadvantages that would be experienced by PQR in operating a decentralized structure; **[5 marks]**

(ii) Explain which types of responsibility centers you would recommend as being most appropriate for W and Z in a decentralized structure; **[5 marks]**

(iii) critically evaluate the possible use of the financial performance measures 'return on capital employed' and 'residual income' for the decentralized structure of PQR; **[5 marks]**

(iv) Discuss the issues that need to be considered in relation to setting transfer prices for transfers made from Z to PQR and W. **[5 marks]**

[Total 20 marks]

Question Three

CM Limited was formed ten years ago to provide business equipment solutions to local businesses. It has separate divisions for research, marketing, product design, technology and communication services, and now manufactures and supplies a wide range of business equipment (copiers, scanners, printers, fax machines and similar items).

To date it has evaluated its performance using monthly financial reports that analyse profitability by type of equipment. The Managing Director of CM Limited has recently returned from a course on which it had been suggested that the 'Balanced Scorecard' could be a useful way of measuring performance.

Requirements

(a) Explain the 'Balanced Scorecard' and how it could be used by CM Limited to measure its performance. [10 Marks]

While on the course, the Managing Director of CM Limited overheard someone mention how the performance of their company had improved after they introduced 'Benchmarking'.

(b) Explain 'Benchmarking' and how it could be used to improve the performance of CM Limited. [10 Marks]

[Total 20 Marks]

Question Four

A company produced three products, the standard costs of which are shown below:

	P	R	S
	\$	\$	\$
Direct material	50	40	30
Direct labour (@ £10/hour)	30	40	50
Production overhead*	30	40	50
	<u>110</u>	<u>120</u>	<u>130</u>

*Absorbed on basis of direct labour hours

	P	R	S
Quantity produced/sold (units)	10,000	20,000	30,000

The company wishes to introduce ABC, and has identified two major cost pools for production overhead and their associated cost drivers.

Information on these activity cost pools and their drivers is given below:

Activity cost pool	Cost driver	Cost associated with activity cost pool
Receiving/inspecting quality assurance	Purchase requisitions	\$1,400,000
Production scheduling/machine set-ups	Number of batches	\$1,200,000

Further relevant information on the three products is also given below

	P	R	S
Number of purchase requisitions	1,200	1,800	2,000
Number of set-ups	240	260	300

Required

- (a) From the information given, calculate the activity-based production cost of products, P, R and S. [15 marks]
- (b) Also, comment on the differences between the original standard costs and the activity-based costs you calculate. [5 Marks]

[Total 20marks]

END OF EXAMINATION QUESTION PAPER