



**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** : NONE  
**DURATION** : 3 Hours  
**LEVEL** : 4.1  
**DATE** :

**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. Which of the following is of concern to not-for-profit making organisations
  - A. The markets to service
  - B. Identifying suppliers to deal with
  - C. Developing capabilities
  - D. Building monopolies
  
2. Industry or sector benchmarking compares
  - A. Organizational performance between firms/public sector organisations in different industries or sectors
  - B. Organizational performance between firms/public sector organisations in the same industry or sector
  - C. Organizational performance between firms/public sector organization in different countries
  - D. Organizational performance between different divisions of the firm
  
3. What does Stars symbolize in BCG matrix?
  - A. Introduction
  - B. Growth
  - C. Maturity
  - D. Decline
  
4. Strategic management handles
  - A. External issues
  - B. Management issues
  - C. Internal issues
  - D. Administrative issues
  
5. BCG in the BCG matrix stands for
  - A. Boston Calmette Group
  - B. British Consulting Group
  - C. Boston Corporate Group
  - D. Boston Consulting Group
  
6. Which of the following is the **BEST** example of strategy development?
  - A. A company allocates resources to enable it to reach new markets
  - B. A company decides to market its products internationally
  - C. A company motivates employees to increase international sales
  - D. A company decides to cut back on its costs
  
7. Dust Co has two division, A and B. Each division is currently considering the following separate project:

	Division A	Division B
Capital required for the project	\$32.6million	\$22.2million
Sales generated by project	\$14.4million	\$8.8million
Operating profit margin	30%	24%
Cost of capital	10%	10%
Current return on investment of division	15%	9%

If residual income is used as the basis for the investment decision, which division(s) would choose to invest in the project?

- A. Division A only
  - B. Division B only
  - C. Both Division A and Division B
  - D. Neither Division A nor Division B
8. Corporate strategy does not include
- A. Diversification
  - B. Consolidation
  - C. Cost leadership
  - D. Vertical integration
9. What does question mark (?) symbolize in BCG matrix?
- A. Remain
  - B. Diversified
  - C. Invest
  - D. Liquidate
10. A method of budgeting that involves using previous budget as a reference point is called
- A. Incremental
  - B. Formula
  - C. Zero based
  - D. Activity based

[Total: 20 marks]

## SECTION B

Answer all questions in this section

### Question One

One of the directors of Footsteps Ltd made the following remarks after attending a strategy formulation workshop in Victoria Falls.

*“Business strategy formulation consumes a lot of organizational resources which may not be matched by the returns. Such a practice seems to be unsuitable for the owner managed and small businesses”*

#### REQUIRED

- (a) Explain the merits of strategy formulation [6 marks]
- (b) Identify and explain the demerits of strategy formulation. [6 marks]
- (c) Discuss why the formal business strategy formulation may be a challenge in the owner managed or small businesses [6 marks]
- (d) Propose strategies that are required to rescue these small businesses [7 marks]

[Total: 25marks]

### Question Two

A company operates two divisions. Select and Choice. Select manufactures two products X and Y. Product X is sold to external customers for \$84 per unit. The only outlet for product Y is Choice. Choice supplies an external market and can obtain its semi-finished supplies (product Y) from either Select or an external source.

Choice currently has the opportunity to purchase product Y from an external supplier for \$76 per unit. The capacity of division Select is measured in units of output, irrespective of whether product X, Y or a combination of both are being manufactured.

The associated product costs are as follows:

	X	Y
Variable cost per unit	6	4
Fixed overheads per unit	1	0
Total unit costs	7	4

#### REQUIRED

- (a) Using the above information, provide advise on the determination of an appropriate transfer price for the sale of product Y from Division Select to Division Choice under the following conditions:

- (i) when Division Select has spare capacity and limited external demand for product X [5 marks]
- (ii) when Division Select is operating at full capacity with unsatisfied external demand for product X. [6 marks]

- (b) The transfer pricing system operated by a divisional company has the potential to make a significant contribution towards the achievement of corporate financial objectives.

Explain the potential benefits of operating a transfer pricing system within a divisionalised company. [7 marks]

- (c) The design of an information system to support transfer pricing decision making necessitates the inclusion of specific data.

Identify the data that needs to be collected and how you would expect it to be used. [2 marks]

[Total: 20 marks]

### Question Three

The chemical Free Clean Company (C Co) provides a range of environmentally-friendly cleaning services to business customers, often providing a specific service to meet a client's needs. Its customers range from large offices and factories to specialist care wards at hospitals, where specialist cleaning equipment must be used and regulations adhered to. C Co offers both regular cleaning contracts and contracts for one-off jobs. For example, its latest client was a chain of restaurants which employed them to provide an extensive clean of all their business premises after an outbreak of food poisoning. The cleaning market is very competitive, although there are only a small number of companies providing a chemical free service. C Co has always used cost-plus pricing to determine the prices which it charges to its customers, but recently, the cost of the cleaning products C Co uses has increased. This has meant that C Co has had to increase its prices, resulting in the loss of several regular customers to competing service providers. The Finance Director at C CO has heard about target costing and is considering whether it could be useful at C Co.

### REQUIRED

- (a) Briefly describe the main steps involved in deriving a target cost [4 marks]
- (b) Explain any difficulties which may be encountered and any benefits which may arise when implementing target costing at C Co [10 marks]
- (c) Distinguish between ROI and RI as measures of performance management [6 marks]

[Total 20 marks]

**Question Four**

Hensau Ltd has a single production process for which the following costs have been estimated for the period ending 31 December 2010:

Material receipt and inspection costs	15,600
Power costs	19,500
Material handling costs	13,650

Three products - X, Y, and Z are produced by workers who perform a number of operations on material blanks using hand held electrically powered drills. The workers are paid \$4 per hour.

The following budgeted information has been obtained for the period ending 31 December 2009:

	Product X	Product Y	Product Z
Production quantity (units)	2,000	1,500	800
Batches of Material	10	5	16
Data per product unit:			
Direct material (square metres)	4	6	3
Direct material cost (\$)	5	3	6
Direct labour (minutes)	24	40	60
No. of power drill operations	6	3	2

Overhead costs for material receipt and inspection, process power and material handling are presently each absorbed by product units using rates per direct labour hour.

An activity based costing investigation has revealed that the cost drivers for the overhead costs are as follows:

Material receipt and inspection:	Number of batches of material
Process power:	Number of power drill operations
Material handling:	Quantity of material (square metres) handled

**Required**

(a) Prepare a summary which shows the budgeted product cost per unit for each product of X, Y, and Z for the period ending 31 December 2010 detailing the unit costs for each cost element using:

(i) The existing method for the absorption of overhead costs [5 marks]

(ii) An approach which recognises the cost drivers revealed in the activity based costing investigation. [10 marks]

[Total 15 marks]

**END OF EXAMINATION QUESTION PAPER**