



**ZIMBABWE EZEKIEL GUTI UNIVERSITY**

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**FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING**

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**DEPARTMENT OF ACCOUNTING AND FINANCE**

**EXAMINATION PAPER**

**COURSE CODE** : CAC403  
**COURSE TITLE** : STRATEGIC PERFORMANCE MANAGEMENT  
**SPECIAL REQUIREMENTS** :  
**DURATION** : 3 Hours  
**LEVEL** : 4.1  
**DATE** : 13 APR 2023

**INSTRUCTIONS TO CANDIDATES:**

1. No cell phones are allowed in the examination venue
2. Use of silent, non-programmable

Answer **all** questions

### **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 20 marks]**

### **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 20marks]**

### **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>
Quantity produced/sold (units)	10,000	20,000	30,000

\*Absorbed on basis of direct labour hours

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]

### Question Five

Solaris specialises in the manufacture of solar panels. It is planning to introduce a new slimline solar panel specially designed for small houses. Development of the new panel is to begin shortly

and Solaris is in the process of determining the price of the panel. It expects the new product to have the following costs.

	Year 1	Year 2	Year 3	Year 4
Units manufactured and sold	2,000	15,000	20,000	5,000
	\$	\$	\$	\$
R & D costs	1,900,000	100,000		
Marketing costs	100,000	75,000	50,000	10,000
Production cost per unit	500	450	400	450
Customer service costs per unit	50	40	40	40
Disposal of specialist equipment				300,000

The Marketing Director believes that customers will be prepared to pay \$500 for a solar panel but the Financial Director believes this will not cover all of the costs throughout the life cycle.

### REQUIRED

- Calculate the cost per unit looking at the whole life cycle and comment on the suggested price **[10 marks]**
- The Chief Executive of your organisation has recently seen a reference to zero-based budgeting. He has asked for more details of the technique.

You are required to prepare a report for him explaining

- Zero-based budgeting and in which areas it can best be applied **[4 marks]**
- Advantages zero-based budgeting has over other traditional budgeting techniques **[3 marks]**
- Explain how the organisation can introduce such a technique **[3 marks]**

**[Total 20marks]**

**END OF EXAMINATION QUESTION PAPER**