



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF LAW, BUSINESS INTELLIGENCE AND ECONOMICS

DEPARTMENT OF ACCOUNTING, FINANCE AND HUMAN CAPITAL
MANAGEMENT

EXAMINATION PAPER

COURSE CODE : CAC424
COURSE TITLE : STRATEGIC MANAGEMENT ACCOUNTING
DURATION : 3 Hours
LEVEL : 4.2
DATE : 23 SEP 2024

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Answer **all** questions
3. Begin each question on a new page
4. Non programmable calculators are allowed in the examination.
5. Graph paper
6. The number of marks for each question or part question is shown in brackets []

Answer all questions

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) Outline THREE potential benefits of introducing zero-based budgeting at LRA **[3 marks]**

[Total: 25 marks]

Question Two

Lakeside plc is considering purchasing one of two businesses in order to expand its operations. The options are:

Turner Ltd

Estimated cost of the take-over bid: \$2.15 million

Production: 100,000 units per annum.

Sales: 80% of the output will be sold under an existing fixed price contract which has a further four years to run at \$15 per unit. The remainder of the production will be sold on the open market at the following selling prices:

Year	1	2	3	4
------	---	---	---	---

Selling price per unit	\$14	\$14	\$15	\$16
Operating costs (including depreciation):	\$750,000 over each of years 1 and 2 \$800,000 over each of years 3 and 4.			
Depreciation:	\$60,000 per year.			

Paxton Ltd

Estimated cost of take-over bid:	\$3.5 million
Production:	200,000 units per annum.
Sales:	A contract already exists covering the next four years under which the entire product will be taken at a price of \$13 per unit for years 1 and 2, \$14 per unit in year 3 and \$15 per unit in year 4.
Operating costs (including depreciation):	\$1.2 million in the first year, \$1.3 million in the second year, \$1.5 million in the third year and \$1.7 million in the fourth year.
Depreciation:	\$90,000 per year.

The cost of capital for Lakeside plc is 12%. All receipts and payments take place at the end of each year.

Extract from present value tables of \$1 @ 12%:

Year 1	.893
Year 2	.797
Year 3	.712
Year 4	.636

REQUIRED

a(i) Calculate the net present value of each of the two businesses. Make a recommendation, with reasons, as to which business appears to be the better investment. **[10 marks]**

(ii) Explain the importance of **two** other methods of capital investment appraisal **[5 marks]**

(a) 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 **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

1. As part of a Balanced Scorecard, you are to identify objectives and measurement for
 - A. the Customer perspective
 - B. 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]
2. 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, i.e, three separate cause and effect relationships should be explained.

[15 marks]

[Total 25 marks]

Question Four

Kensis commenced business on 1 January 2020 trading as Kensis Kitchen Cabinets selling 3 K kitchen furniture. She had opened a business bank account on 15 December 2019 paying \$25000 into it as her opening capital. On 21 December 2019, she rented premises, paying the first quarter's rent, due on 25 December 2019, \$1200. Other expenditure in the same month was for the purchase of fixed assets for cash \$8000 and stock \$20000 which was bought on one month's credit.

Kensis estimates that her other purchases and the sales for the year to 31 December 2020 will be as follows:

3 months to	Purchases	Sales
	\$	\$
March 31	12000	15000
June 30	18000	24000
September 30	21000	30000
December 31	15000	36000

All purchases and sales will be on one month credit

Other expenditure in 2020 will be as follows

January 5 Purchase of motor van for cash \$5000, the van is to be depreciated annually at the rate of 20 percent on cost

Wages \$2000 paid per month paid currently

Kensis will draw \$500 per month for living expenses. She plans to sell her private jet in June for \$3500 and to pay the proceeds into the business as additional capital. A friend has also promised to lend the business \$6000 in September 2020.

Kensis's bank has agreed to allow overdraft facilities if they are required with interest at 10 percent per annum. Interest will be debited in the bank statements on the last day of each half year and will be calculated on the Average overdraft, if any for the half year. For this purpose the overdraft on the last day of the immediately preceding quarter is to be taken as the average for the half year.

Required

(a) Kensis's cash budget for the year to 31 December 2020

[20marks]

(b) Explain the importance of budgeting to a furniture manufacturer

[5marks]

[Total 25 marks]