



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE : CAC 403
COURSE TITLE : STRATEGIC PERFORMANCE MANAGEMENT
SPECIAL REQUEST : Non-programmable Calculator
DURATION : 3 Hours
LEVEL : 4.1
DATE : 13 NOV 2019

INSTRUCTIONS TO CANDIDATES:

1. Use of silent, non-programmable calculators is allowed.
2. Answer all questions in both Section A and Section B.
3. Begin each question on a new page.
4. 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.

1. A manufacturing company benchmarks the performance of its accounts receivable department with that of a leading credit card company.
What type of benchmarking is the company using?
 - A. Internal benchmarking
 - B. Competitive benchmarking
 - C. Functional benchmarking
 - D. Strategic benchmarking

2. Which of the following BEST describes target costing?
 - A. Setting a cost by subtracting a desired profit margin from a competitive market price
 - B. Setting a price by adding a desired profit margin to a production cost
 - C. Setting a cost for the use in the calculation of variances
 - D. Setting a selling price for the company to aim for in the long run

3. A company has a capital employed of \$200,000. It has a cost of capital of 12% per year. Its residual income is \$36,000.
What is the company's return on investment?
 - A. 30%
 - B. 12%
 - C. 18%
 - D. 22%

4. Which of the following are suitable measures of performance at the strategic level?
 - (1) Return on investment
 - (2) Market share
 - (3) Number of customer complaints
 - A. 1 and 2
 - B. 2 only
 - C. 2 and 3
 - D. 1 and 3

5. Which of the following would not be expected to appear in an organisation's mission statement?
 - A. The organisation's values and beliefs
 - B. The products or services offered by the organisation
 - C. Quantified short term targets the organisation seeks to achieve
 - D. The organisation's major stakeholders

6. Which of the following BEST describes a flexible budget?
 - A. A budget which shows variable production costs only
 - B. A monthly budget which is changed to reflect the number of days in the month
 - C. A budget which shows sales revenue and costs at different levels of activity
 - D. A budget that is updated halfway through the year to incorporate the actual results for the first half of the year

7. Dust Co has two divisions, A and B. Each division is currently considering the following separate projects:

	Division A	Division B
Capital required for the project	\$32.6 million	\$22.2 million
Sales generated by project	\$14.4 million	\$8.8 million
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. What is the name given to a budget which has been prepared by building on a previous period's budgeted or actual figures?
- A. Incremental budget
B. Flexible budget
C. Zero based budget
D. Functional budget
9. A manufacturing company which produces a range of products has developed a budget for the life-cycle of a new product, P. The information in the following table relates exclusively to product P:
- Lifetime total Per unit
Design costs \$800,000
Direct manufacturing costs \$20
Depreciation costs \$500,000
Decommissioning costs \$20,000
Machine hours 4
Production and sales units 300,000
- The company's total fixed production overheads are budgeted to be \$72 million each year and total machine hours are budgeted to be 96 million hours. The company absorbs overheads on a machine hour basis.
- What is the budgeted life-cycle cost per unit for product P?
- A. \$24.40
B. \$25.73
C. \$27.40
D. \$22.73
10. Which of the following techniques is NOT relevant to target costing?
- A. Value analysis
B. Variance analysis
C. Functional analysis
D. Activity analysis
11. At the end of 20X1, an investment centre has net assets of \$1m and annual operating profits of \$190,000. However, the bookkeeper forgot to account for the following:

A machine with a net book value of \$40,000 was sold at the start of the year for \$50,000 and replaced with a machine costing \$250,000. Both the purchase and sale are cash transactions. No depreciation is charged in the year of purchase or disposal. The investment centre calculates return on investment (ROI) based on closing net assets.

Assuming no other changes to profit or net assets, what is the return on investment (ROI) for the year?

- A. 18.8%
- B. 19.8%
- C. 15.1%
- D. 15.9%

12. Frankie co has two divisions, A and B. Division A makes a component at a marginal cost of \$30, which it can only sell to Division B. Division A has no other outlet for sales. Division B takes A's component and turns it into a finished good, incurring its own cost of \$55 per unit and selling it externally at \$120.

Which ONE of the following statements is true?

- A. The minimum TP that Division A will accept from Division B is \$ 30, the maximum TP that Division B will pay is \$60 and the company makes a negative contribution.
 - B. The minimum TP that Division A will accept from B is \$ 30, the maximum TP that B will pay is \$65 and the company makes a negative contribution.
 - C. The minimum TP that Division A will accept from B is \$ 30, the maximum TP that B will pay is \$65 and the company makes a positive contribution.
 - D. The minimum TP that Division A will accept from B is \$ 30, the maximum TP that B will pay is \$55 and the company makes a positive contribution.
13. Division A has decided it wants to maximise its own profits by selling externally at a price of \$45 to Customer Co, after incurring distribution costs on external sales of \$3 per unit. As before, Division A can also sell internally to Division B.
- Which of the following statements are correct?
- (1) The net sales price per unit Division A gets externally is \$42.
 - (2) \$65 is the maximum transfer price B will pay.
 - (3) If working at full capacity, \$42 is the lowest transfer price Division A will accept.
 - (4) If there is spare capacity in Division A, \$30 is the lowest transfer price Division A will accept.
- A. Statements (1) and (2) only
 - B. Statements (1), (2) and (4) only
 - C. Statements (1), (3) and (4) only
 - D. Statements (1), (2), (3) and (4).

14. Division A operates at full capacity and sells all its components for \$45 to Customer Co, after incurring distribution costs on external sales of \$3 per unit. An external supplier, Third Co, has offered to supply Division B for \$40 per unit.

What should each division do to maximise company profitability?

- A. A Division A should not produce the component for Division B and keep all its units for external sales.
- B. Division A should redirect some of its external sales towards Division B and sell to Division B at price between \$30 and \$40.
- C. Division A should not produce at all and all supplies to Division B should be externally sourced from Third Co.
- D. Division A should try and sell all its components to Division B for \$42.

15. Division A operates at full capacity and sells all its components for \$45 to Customer Co, after incurring distribution costs on external sales of \$3 per unit. Third Co, the original external supplier to Division B, has now gone out of business but Fourth Co, another external supplier, has offered to supply Division B for \$29 per unit.

What should Frankie Co do to maximise company profitability?

- A. Division A should not produce the component for Division B and keep all its units for external sales.
- B. Division A should redirect some of its external sales towards Division B and sell to Division B at price between \$30 and \$40.
- C. Division A should not produce at all and all supplies should be externally sourced from Fourth Co.
- D. Division A should try and sell all its components to Division B for \$42

[Total: 30 Marks]

SECTION B

Answer all questions in this section.

Question One

Division A is a profit centre that produces three items B, C and D. Each item has an external market.

	B	C	D
External market price per unit	\$46	\$40	\$48
Variable cost of production of division A	\$24	\$28	\$33
Labour hours required per unit in division A	4	2	3

Product B can be transferred to division Z, but the maximum quantity that might be required for transfer is 300 units of B. The maximum external sales are 500 units of B, 300 units of C and 800 units of D. Instead of receiving transfers of product B from division A, division Z could buy similar units of product B on the open market at a lower price of \$45 per unit.

Required

- a) What should the transfer price be for each unit if the total labour hours available in division A are 3,800 hrs (show your workings) [13 marks]
- b) What should the transfer price be for each unit if the total labour hours available in division A are 5,600 hrs? (show your workings) [12marks]

TOTAL [25marks]

Question two

Porter suggested that a firm must assess the industry's market attractiveness by considering:

- the extent of the rivalry between existing competitors;
- the bargaining power of suppliers;
- the bargaining power of buyers;

- the threat of substitutes;
- the threat of new entrants.

Required

- a) If a firm wishes to monitor the bargaining power of buyers, recommend the factors that should be included in the monitoring system implemented by the firm [10marks]
- b) Explain four different methods whereby a firm can reduce the threat of new entrants to an industry. [8marks]
- c) Explain the reasons why firms often continue to operate in an industry which is generating below normal returns in the short run. [7marks]

Total [25 marks]

Question three

Briefly discuss the following benchmarking methods of performance measurement in organisations:

- a) Internal benchmarking [5]
- b) Competitive benchmarking [5]
- c) Process benchmarking [5]
- d) Customer benchmarking [5]

TOTAL [20marks]

End of Paper