



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
DURATION : 3 Hours
DATE :

INSTRUCTIONS TO CANDIDATES:

1. Answer **all** questions.
2. The paper carries **four** questions
3. Use of silent, non-programmable calculators is allowed.
4. Each question carries 25 Marks.
5. Start each question on a new page of your answer sheet.

QUESTION 1

ENT Entertainment Co (ENT) is a large, diversified entertainment business based in Teeland. The company's objective is the maximisation of shareholder wealth for its family owners. It has four divisions:

1. Restaurant
2. Cafes
3. Bars
4. Dance

Recently, ENT's board have identified that there are problems in managing such a diversified company. They have employed consultants who have recommended that they should perform a Boston Consulting Group (BCG) analysis to understand whether they have the right mix of businesses. The chief executive officer (CEO) has questioned whether using this analysis is helpful in managing the group's performance. A business analyst has prepared information on each division in the table below.

Revenue (\$m)	Actual 2010	Actual 2011	Forecast 2012	Forecast 2013
Restaurants				
ENT	54	56	59	62
Market sector	10,752	10,860	10,968	10,968
Cafes				
ENT	31	34	41	47
Market sector	3,072	3,348	3,717	4,051
Bars				
ENT	349	342	336	336
Market sector	9,984	9,784	9,491	9,206
Dance clubs				
ENT	197	209	219	241
Market sector	1,792	1,900	2,013	2,195

In Teeland, the economy is generally growing at about 2% per annum. The restaurant, cafe and bar sectors are all highly fragmented with many small operators. Consequently, a market share of more than 3.0% is considered large as that is comparable to the share of the largest operators in each sector. There are fewer small late night dance club operators and the market leader currently holds a 15.0% market share. There have not been many new developments within the divisions except for a new wine bar format launched by the bars division which has surprised the board by its success.

Each of the division's performance is measured by economic value-added (EVA™). The divisional managers have a remuneration package that is made up in two equal parts by a salary set according to industry norms and a bonus element which is based on achieving the cost budget numbers set by the company board. The chairman of the board has been examining the consistency of the overall objective of the business, the divisional performance measure and the remuneration packages at divisional level. He has expressed the worry that these are not properly aligned and that this might lead to dysfunctional behaviour by the divisional management.

Required

- a) Perform a BCG analysis of ENT's business and use this to evaluate the company's performance. (10 marks)
- b) Critically evaluate this BCG analysis as a performance management system at ENT. (10 marks)
- c) Evaluate the divisional managers' remuneration package in light of the divisional performance system and your BCG analysis. (5 marks)

(Total 25 marks)

QUESTION 2

Great Games, a manufacturer of computer games, is in the process of introducing a new game to the market and has undertaken market research to find out about customers' views on the value of the product and also to obtain a comparison with competitors' products. The results of this research have been used to establish a target selling price of \$60. This is the price that the company thinks it will have to sell the product at to achieve the required sales volume.

Cost estimates have been prepared based on the proposed product specification.

<i>Manufacturing cost</i>	\$
Direct material	3.21
Direct labour	24.03
Direct machinery costs	1.12
Ordering and receiving	0.23
Quality assurance	4.60
<i>Non-manufacturing costs</i>	
Marketing	8.15
Distribution	3.25
After-sales service	1.30

The target profit margin for the game is 30% of the target selling price.

Required

- Describe the target costing setting process (8 marks)
- Calculate the target cost of the new game and the target cost gap (11 marks)
- Compare and contrast target costing and kaizen costing (6 marks)

[Total marks 25]

QUESTION 3

Praise, a car dealer provides the following information about the car (model Comfort) it trades -

Demand for Comfort each day	1	2	3	4
Probability of demand	0.2	0.3	0.4	0.1

The cost of a Comfort to Praise is \$12,500 and its selling price is \$15,000.

Required:

- Calculating the expected value, advice the company on how many cars it should purchase daily. (10 marks)
- Pretty, a cosmetics dealer wants to decide on the extent of advertisement she should make for her products. The following is the profit table corresponding to the advertisement expenditure:

Demand	Low advertisement	Average advertisement	High advertisement
High	155	165	185
Average	140	150	160
Low	120	120	145

- i. Which strategy should pretty adopt under the Maximax approach? (5 marks)
- ii. Which strategy should pretty adopt under the Maximin approach? (5 marks)
- iii. Which strategy should pretty adopt under the Minimum regret approach? (5 marks)

[Total marks 25]

Question Four

Critically evaluate the following budgeting models, stating the strength and weaknesses of each;

- a) Incremental budgeting (5 marks)
- b) Zero-based budgeting (5 marks)
- c) Rolling budgets (5 marks)
- d) Flexible budgets (5 marks)
- e) Activity based budgeting (5 marks)

[Total: 25 marks]

END OF EXAMINATION