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	:	27 May 2019

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 One

APX Accountancy (APX) is an accountancy partnership with 12 branches covering each of the main cities of Emland. The business is well established, having organically grown over the last 40 years to become the second largest non-international practice in Emland. The accountancy market is mature and expands and contracts along with the general economic performance of Emland. APX offers accountancy, audit, tax and business advisory services. The current business environment in Emland is dominated by a recession and the associated insolvency work is covered within the business advisory area of APX.

At present, the practice collects the following information for strategic performance evaluation:

	Audit	Tax	Business Advisory	Total
Revenue ($m)				
APX	69·1	89·2	64·7	223·0
Accounting industry	557·0	573·0	462·0	1,592·0
Change in revenue on previous year				
APX	3·0%	8·0%	22·0%	10·0
Accounting industry	2·5%	4·5%	16·0%	6·8
Profit margin at APX	6·4%	7·8%	10·5%	8·1
Customer service score (1 to 5 with 5 being				
APX	3·4	3·9	4·1	

The above figures are for the most recent financial year and illustrate the metrics used by APX. Equivalent monthly figures are produced for each of the monthly partner meetings which review practice performance.

The staff are remunerated based on their grade, with non-partners obtaining a bonus of up to 10% of basic salary based on their line managers' annual review. The partners receive a fixed salary with a share of profit which depends on their contractual responsibilities within the partnership.

The managing partner of APX is dissatisfied with the existing performance management system, as she is not convinced that it is helping to achieve the long-term goal of expanding and ultimately floating the business on the national stock exchange. Therefore, she has asked you to consider the impact of applying Fitzgerald and Moon's building block approach to performance management in the practice.

Required

a) Briefly describe Fitzgerald and Moon's building block model of performance management. **(9 marks)**

b) Evaluate the existing performance management system at APX by applying the building block model. **(9 marks)**

c) Explain the main improvements the introduction of a building block approach to performance management could provide, and suggest specific improvements to the existing system of performance measures at APX in light of the introduction of the building block model. **(9 marks)**

[Total:25 marks]

Question Two

Edgars company has two divisions in Avondale and Borrowdale. The management of both divisions, Avondale and Borrowdale divisions are considering two different projects, Alfa and Beta respectively. The following information is provided relating to these projects.

- An average initial investment of \$60m and \$84m would be required in Alfa and Beta projects respectively for equipment at the beginning of year 2017. The investment would have nil residual value at year end 2018.
- Alfa and Beta projects are expected to generate revenue amounting to \$25m and \$30.5m respectively. The expected costs to be incurred for the projects amounts to \$17.8m and \$18.9m respectively.
- The cost of capital for Edgars Company is 10% per annum. Target ROI of the Avondale division is 13% and of Borrowdale division is 9%.
- A bonus scheme is based on the performance evaluation. The scheme is in- operation in all divisions in Edgars Company.

Required:

a) Calculate the residual income (RI) and return on investment (ROI) of the proposed project and comment briefly, using ONLY the above information, on the divisional manager's decision regarding the project. Also discuss its impact on the organisation's overall performance. **(17 marks)**

b) Critically analyse weaknesses of residual income and return on investment in measuring financial performance. **(8 marks)**

[Total: 25marks]

Question Three

NN Ltd manufactures and markets a range of electronic office equipment. The company currently has a turnover of £40 million per annum. The company has a functional structure and currently operates an incremental budgeting system. The company has a budget committee that is comprised entirely of members of the senior management team. No other personnel are involved in the budgetsetting process.

Each member of the senior management team has enjoyed an annual bonus of between 10% and 20% of their annual salary for each of the past five years. The annual bonuses are calculated by comparing the actual costs attributed to a particular function with budgeted costs for that function during the twelve month period ended 31 December in each year.

A new Finance Director, who previously held a senior management position in a 'not for profit' health organisation, has recently been appointed. Whilst employed by the health service organisation, the new Finance Director had been the manager responsible for the implementation of a zerobased budgeting system which proved highly successful.

Required:

a) As the new Finance Director, prepare a memorandum to the senior management team of NN Ltd which identifies and discusses:

   i. factors to be considered when implementing a system of zero-based budgeting within NN Ltd; **(13 marks)**

   ii. the behavioural problems that the management of NN Ltd might encounter in implementing a system of zerobased budgeting; **(6 marks)**

b) Explain how the implementation of a zerobased budgeting system in NN Ltd may differ from the implementation of such a system in a 'not for profit' health organisation. **(4 marks)**

[Total: 25 marks]

Question Four

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:

	Yr 1	Yr 2	Yr 3	Yr 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:

a) Calculate the cost per unit looking at the whole life cycle **(16 marks)**

b) Comment on the suggested price calculated in (a) above **(9 marks)**

[Total: 25 marks]

END OF EXAMINATION