

ZIMBABWE EZEKIEL GUTI UNIVERSITY



FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

BACHELOR OF COMMERCE ACCOUNTING

COURSE: STRATEGIC PERFORMANCE MANAGEMENT

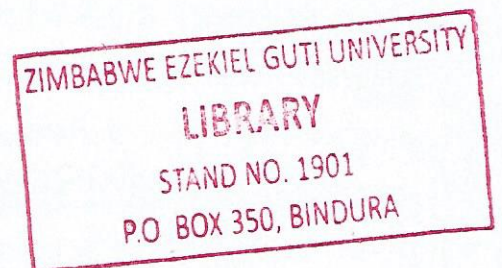
CODE: CAC403

DURATION: 3 HOURS

DATE 20 JUNE 2017

INSTRUCTIONS TO CANDIDATES

1. Answer ALL FOUR questions.
2. All relevant workings and formulae must be shown.
3. Start each question on a separate page.
4. Non-programmable calculators may be used.
5. Use good business language and clear presentation in your answers.



Question 1

Mystique Ltd is an electronics store that has several stores across London. The manager of the company is an ambitious person, and is looking to expand his activities, by continuously adding the number of stores.

Mystique assesses the performance of each of their stores individually. The expected return on investment (ROI) of Mystique is 10%. Some of the stores have been able to achieve an ROI above this target. The market for Mystique is rapidly increasing. The stores of the company, at an average, have a gross profit ratio of around 40%.

Below is financial data given for two of Mystique Ltd's stores for the last year: Store A, Trafalgar Square and Store B, Oxford Street

	Store A (\$'000)	Store B (\$'000)
Sales	860	675
Gross profit	362	285
Net profit	75	50
Assets employed (investment	585	360

Required:

- a) Discuss the past financial performance of store A and B using ROI and any other measure you feel appropriate from the given data. Using your findings discuss whether each of the measures you used correctly reflects the stores' actual performance. **(15 marks)**
- b) Discuss the disadvantages of comparing divisional performance **(10 marks)**

Question 2

- a) Almora Engineers manufactures special motor spares used for water pumps in buildings that have over 25 storeys. These products are in heavy demand, since the construction industry is flourishing. There are two main departments in the factory – welding and pressing departments. There are four products, namely WT4, WT6, PL1 and PL7. Whilst WT4 and WT6 are produced by welders in the welding department, PL1 and PL7 are produced by press-operators in the pressing department. Due to very specific training by the company during induction, welders and press-operators cannot work interchangeably.

Details of the per unit resource consumption, cost and selling price are given below:

	WT6	WT4	PL1	PL7
Hours required	7.2	7.2	9.0	3.6
Selling price per unit (\$)	86.4	90	138.6	124.2
Direct material per unit	32.4	39.6	57.6	79.2
Direct labour rate per unit (\$)	7.2	7.2	7.2	7.2
Variable overhead per unit (\$)	3.6	3.6	5.4	5.4
Minimum demand to be met per management decision (units)	3600	4500	3240	3960

The maximum hours available for welders are 60,000 and for press-operators are 45,000. In addition to the above costs, the company also incurs fixed costs of \$90,000. The company is likely to experience an additional demand for some of their products in the coming quarter. However, since the workmen cannot interchange their jobs and cannot support each other, Almora can cater only to the demand for the product of one department at a time. The newly appointed manager has suggested a special training course which will ensure that workers perform both jobs. This will lead to an increase in fixed costs by \$9,000.

Required:

- i) Prepare a product mix to maximise profits, if workers are not given any special training. Also, calculate the maximum possible profit. **(12marks)**
 - ii) Evaluate whether the manager's recommendation of special training to be given to workmen is advisable for the company. Provide appropriate calculations. **(5 marks)**
- b) A manufacturer makes a product in which the principal ingredient is chemical X. Presently, the manufacturer spends \$1,000 p.a. on his supply of X. However, there is a strong possibility that the price may soon increase to four times its current price due to a worldwide shortage of the chemical. There is another chemical, Y, which the manufacturer could use in conjunction with a third chemical, Z, to give the same effect as chemical X. Chemical Y and Z would together cost the manufacturer \$3,000 p.a. Their prices are unlikely to rise.

Required:

What action should the manufacturer take? Apply the maximin and minimax criterion for decision making and give two sets of solutions. **(8 marks)**

Question 3

Makudo Ltd. is a divisionalised company. Each month the company's Industrial Division manufactures 600 tons of a product which it sells to external customers at a price of \$20 per ton. The fixed costs of the Industrial Division are \$28 800 per month and the marginal costs of production and sale amount to \$9 per ton. An absorption costing system is used to work out a 'full cost per ton' based on this level of cost and activity.

Another division of the company (the Consumer Division) buys 200 tons of a very similar chemical component from an external supplier each month at a price of \$15 per ton. However, the Industrial Division has sufficient spare capacity to enable it to supply the monthly needs of the Consumer Division. The transfer price which the Industrial Division would charge would be the 'full cost per ton' as calculated based on the increased level of output. The Consumer Division has indicated that this transfer price would be acceptable.

Required:

a) Calculate the transfer price proposed by the Industrial Division, and show that this transfers pricing arrangement will motivate both divisions to act in a manner which is in the best interests of Makudo Ltd. **(10 marks)**

b) Assume now that the two divisions cannot agree on transfer pricing arrangements for the 200 tons. Specifically, the Industrial Division will not accept any price lower than \$14,50 per ton but the Consumer Division will not agree to pay any price higher than \$9,50 per ton.

Discuss whether, in these circumstances, the board of directors of Makudo Ltd. should intervene to order the divisions to make the transfer at the price calculated in your answer to part (a). **(10 marks)**

c) Assume now that the Consumer Division requires a further 50 tons per month (in addition to the 200 tons), but that the Industrial Division has no additional spare capacity and therefore these 50 tons could only be provided to the Consumer Division if the Industrial Division were to reduce sales to its external customers by an equivalent amount.

Assume also that the marginal cost to the Industrial Division of supplying a ton to the Consumer Division is \$0, 30 lower than the cost of supplying a ton to an external customer. What is the appropriate transfer price per ton for these 50 tons? Explain your answer. **(5 marks)**

Question 4

You have recently been appointed as an assistant management accountant in large company, Delta Beverages. When you meet the production manager, you overhear him speaking to one of his staff, saying: "Budgeting is a waste of time. I don't see the point of it. It tells us what we can't afford but it doesn't keep us from buying it. It simply makes us invent new ways of manipulating figures. If all levels of management aren't involved in the setting of the budget, they might as well not bother preparing one.

Required

- a) Identify and explain six objectives of a budgeting control system. (13 marks)
- b) Discuss the concept of a participative style of budgeting in terms of the six objectives identified in (a) above. (12 marks)

END OF PAPER

