



## BERJAYA BUSINESS SCHOOL

### FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) :

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Course Code & Name : **ACC3223 STRATEGIC MANAGERIAL ACCOUNTING**  
 Trimester & Year : MAY – AUGUST 2019  
 Lecturer/Examiner : JAMES LIOW  
 Duration : 3 Hours

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### INSTRUCTIONS TO CANDIDATES

1. This question paper consists of 1 part:  
 PART A (100 marks) : Answer FOUR (4) compulsory questions. Answers are to be written in the Answer Booklet provided.
2. Candidates are not allowed to bring any unauthorized materials except writing equipment into the Examination Hall. Electronic dictionaries are strictly prohibited.
3. This question paper must be submitted along with all used and/or unused rough papers and/or graph paper (if any). Candidates are NOT allowed to take any examination materials out of the examination hall.
4. Only ballpoint pens are allowed to be used in answering the questions, with the exception of multiple choice questions, where 2B pencils are to be used.

**WARNING:** The University Examination Board (UEB) of BERJAYA University College regards cheating as a most serious offence and will not hesitate to mete out the appropriate punitive actions according to the severity of the offence committed, and in accordance with the clauses stipulated in the Students' Handbook, up to and including expulsion from BERJAYA University College.

**Total Number of pages = 5 (Including the cover page)**

**PART A : COMPULSORY QUESTIONS (100 MARKS)**

**INSTRUCTION (S)** : There are **FOUR (4)** compulsory questions in this section. Answer **ALL** questions. Write your answers in the Answer Booklet(s) provided.

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**QUESTION 1**

Monaghan Ltd. manufactures advanced technical components for the computer hardware industry.

The company's United Division manufactures a special subcomponent at a variable cost of \$70 per unit. This division's maximum monthly production capacity is 28,000 units, but its actual production each month is 25,000 units. Of this actual monthly production, 15,000 units are sold to external customers (at a price of \$100 each) while the remaining 10,000 units are transferred to the company's Delta Division at the same price.

The Delta Division's maximum production capacity is 13,500 units per month. However, market demand for the division's product is only 10,000 units and therefore production is carried out at this level. In producing one unit of its product, Delta Division uses one unit of the subcomponent purchased from United Division and incurs additional variable costs of \$90 per unit. The selling price of Delta Division's product is \$200 per unit.

The Delta Division recently received an enquiry from a new customer, Prestige Ltd who has offered to purchase 3,000 units of that division's product each month at a price of \$185 per unit.

Monaghan Ltd has set the transfer price for United Division at the variable cost.

***Required***

- a) Determine the spare capacity available of the two divisions and advice Monaghan Ltd whether to accept the offer from Prestige Ltd. (3 marks)
- b) Prepare calculations to indicate the increase in the monthly profits of Monaghan Ltd., if the new customer's offer is accepted. (4 marks)
- c) Discuss whether the existing transfer pricing arrangements would motivate each of the two divisions to cooperate in transferring the 3,000 subcomponents needed in order to manufacture the new customer's order. (6 marks)
- d) Calculate the minimum transfer prices which would be acceptable to United Division and identify the maximum transfer prices which would be acceptable to Delta Division. (4 marks)

- e) Then, suggest a transfer price per unit and calculate the profit achieved by both divisions for the 3,000 subcomponents which would achieve assuming that the incremental profits from doing business with the new customer are to be shared equally between the two divisions. (8 marks)

**[Total 25 marks]**

## QUESTION 2

Tipp PLC, a large multinational company, is undertaking a review of its organisational structure. Top management is concerned that the methods used for divisional performance evaluation and transfer pricing may be encouraging dysfunctional behaviour by division managers.

The following sample data is available concerning two of the company's divisions for last year:

	Division A	Division B
Operating profit (\$)	152,000	72,000
Capital invested (\$)	1,600,000	576,000

The cost of capital is 7% for both divisions. It can be assumed that there are no intra-company transfers between Divisions A and B.

### Required

- a) Calculate the Return on Investment (ROI) and Residual Income (RI) for each division. Comment which of these two measures (ROI or RI) gives the clearer indication of divisional contribution to the overall success of Tipp PLC. (6 marks)
- b) Assume that Tipp PLC decided to accept an additional investment opportunity which would increase operating profit by \$23,000 but would require capital investment of \$220,000 and ROI is used for divisional performance evaluation purposes.

Calculate the ROI on the additional investment opportunity and comment on the reactions of the two division managers that would benefit the overall best interests of the company's shareholders. Justify your answer. (6 marks)

- c) Calculate at what cost of capital the two divisions would have the same Residual Income. (In answering this part, ignore the additional investment opportunity in part (b) above). (5 marks)
- d) Although there are no intra-company transfers between Divisions A and B, there are a significant number of intra-company transfers between other divisions of Tipp PLC. Discuss the optimum pricing strategy and the sensible range for the transfer in order to achieve goal congruence. (8 marks)

**[Total 25 marks]**

### QUESTION 3

CX is a passenger transport company which is seeking to improve its profits. It operates a number of bus routes within a 10 mile radius of a city centre. It operates a fleet of 100 buses, each of which has a capacity of 50 persons, throughout the day, seven days per week. The frequency of buses on each of its routes varies from a minimum of one to a maximum of four per hour during the day and evening.

The passengers who use the buses are a mix of adults and children. Some routes are busier than others and, at certain times, some passengers have to stand on the bus as there are insufficient seats available.

CX realised that the performance measurement currently adopted by the company failed to assess the performance in other areas particularly in customer satisfaction, assessment of drivers, numbers of breakdowns of buses, preventative maintenance, slow arrival in picking up passengers in every stop and others.

The directors of CX are considering how best to measure the performance of each of the routes that they operate and it has been suggested that they should use a Balanced Scorecard approach.

#### **Required**

- a) Discuss how the Balanced Scorecard differs from the traditional financial performance measurement. (4 marks)
- b) Outline the **FOUR** (4) main perspectives (sections) of a Balanced Scorecard. (7 marks)
- c) Explain how the four perspectives could lead to the success of the company. (6 marks)
- d) Explain **TWO** (2) performance measures, each from a different perspective of the Balanced Scorecard that CX could use to measure the performance of its routes. (8 marks)

**[Total 25 marks]**

### QUESTION 4

HRS is a food producer that makes low cost processed food that it sells to supermarkets. HRS produces only one type of processed food product and production techniques have remained largely unchanged for a number of years.

Over recent months, sales have been falling steadily. Consumer tastes are changing to favour natural ingredients and supermarkets have reflected this in the products that they offer for sale.

HRS is keen to address the decline in sales and recently held a meeting to discuss the performance of the organisation. The Management Accountant suggested to the Managing Director that the performance of HRS could be improved by implementing Total Quality Management (TQM) principles and adopting Kaizen costing concepts. Currently the control systems of HRS focus on material price and usage.

The Managing Director is sceptical of the Management Accountant's suggestions and is unclear as to whether they are suitable for the company.

**Required**

- a) Explain **THREE** (3) conditions that must exist for TQM to be successfully implemented at HRS.  
(9 marks)
- b) Explain the **FOUR** (4) categories of costs of quality which typically appear in a Cost of Quality (COQ) report, and give a specific example of a cost in each category.  
(12 marks)
- c) Discuss the relationship between conformance costs and non-conformance costs and how it would affect this company in long run.  
(4 marks)

**[Total 25 marks]**

**END OF QUESTION PAPER**