



## 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 : **SEPTEMBER – DECEMBER 2018**  
 Lecturer/Examiner : **JAMES LIOW**  
 Duration : **3 Hours**

### 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 question in this section. Answer **ALL** questions. Write your answers in the Answer Booklet(s) provided.

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**QUESTION 1**

Invercargill Ltd. is a divisionalised company. Each month the company's Chemicals Division manufactures 60,000 tons of a product which it sells to external customers at a price of \$150 per ton. The fixed costs of the Chemicals Division are \$2,880,000 per month and the marginal costs of production amount to \$90 per ton. An absorption costing system is used to work out a 'full cost per ton' on the basis of this level of cost and activity.

Another division of the company (the Detergents Division) sells 20,000 tons of its products to an external customer each month at a price of \$150 per ton. However, the Chemicals Division has sufficient spare capacity to enable it to supply the monthly needs of the Detergents Division. The transfer price which the Chemicals Division would charge would be the 'full cost per ton' as calculated on the basis of the increased level of output. The Detergents Division has indicated that this transfer price would be acceptable.

**Required**

- a) Calculate the transfer price proposed by the Chemicals Division. (3 marks)
- b) Prepare the incremental contribution arising from the additional sales based on this transfer pricing arrangement of both divisions and Invercargill Ltd. as a whole. (9 marks)
- c) Assume now that the two divisions cannot agree on transfer pricing arrangements for the 20,000 tons. Specifically, the Chemicals Division will not accept any price lower than \$145 per ton but the Detergents Division will not agree to pay any price higher than \$95 per ton.  
Discuss whether, in these circumstances, the board of directors of Invercargill Ltd. should intervene to order the divisions to make the transfer at the price calculated in your answer to part (b). Explain with **TWO (2)** reasons why intervention by Invercargill Ltd might not be the best interest for divisional managers. (9 marks)
- d) Assume now that the Detergents Division requires a further 5,000 tons per month (in addition to the 20,000 tons), but that the Chemicals Division has no additional spare capacity and therefore these 5,000 tons could only be provided to the Detergents Division if the Chemicals Division were to reduce sales to its external customers by an equivalent amount. Assume also that the marginal cost to the Chemicals Division of supplying a ton to the Detergents Division is \$3.00 lower than the cost of supplying a ton to an external customer.  
Calculate the appropriate transfer price per ton for these 5,000 tons. Explain your answer. (4 marks)

**[Total 25 marks]**

## QUESTION 2

Frobisher Ltd. is a large company with several autonomous divisions. Each Divisional Manager is expected to achieve a Return on Investment (ROI) for his or her division of at least 12% per annum, which is the company's cost of capital. However, the actual ROI reported by various divisions in recent years have varied between 6% and 20%.

The Managing Director of Frobisher Ltd. recently read an article which suggested that the use of ROI for divisional performance evaluation may encourage divisional managers to make investment decisions which are not in the company's best interests. He has asked for your assistance in evaluating the potential for such behaviour in this company and has provided you with the following four examples of investment proposals which are to be used for illustrative purposes:

<b>Proposal A:</b>	Capital investment required = \$600,000. Annual profit generated = \$102,000.
<b>Proposal B:</b>	Capital investment required = \$150,000. Annual profit generated = \$31,500.
<b>Proposal C:</b>	Capital investment required = \$350,000. Annual profit generated = \$28,000.
<b>Proposal D:</b>	This would involve selling off an existing investment which has a book value of \$420,000 and generates an annual profit of \$58,800.

### **Required**

- Taking each of these four proposals by using the ROI, comment the circumstances in which Divisional Managers at Frobisher Ltd. are likely to make investment decisions which are not in the company's best interests. Support your answer with appropriate calculations and compare ROI with the divisional expected return, and the return achieved in recent years. (12 marks)
- Discuss whether the use of Residual Income (rather than ROI) for divisional performance evaluation purposes would eliminate the danger that Divisional Managers would make decisions in relation to the four proposals which are not in the company's best interests. Support your answer with appropriate calculations. (10 marks)
- Define what is meant by a "cost centre" approach to budgetary control and state **ONE** (1) example of cost centre. (3 marks)

**[Total 25 marks]**

### QUESTION 3

Johannesburg Ltd consists of a large number of autonomous business units. Each business unit provides some type of personal transport service (e.g., taxi, hackney or limousine services) but the units are operated and branded separately because they cater for different market segments.

The “Western Cabs” business unit provides a hackney service in the west of Ireland, connecting airports with towns throughout the region. The main customers are students, retired people, and young immigrant workers. These customers appreciate the good value and reliability which are the acknowledged market strengths of “Western Cabs” compared to many other transport operators in the area. “Western Cabs” recently launched a new campaign advertising its services through the medium of several immigrant languages in order to consolidate this part of its customer base.

The “Atlantic Limousines” business unit is based in the same geographical area, serving the same airports and towns. Its main customers are large companies who require rapid, luxurious transport for their senior managers and corporate visitors. Some of these large companies have been a long term customers for Johannesburg Ltd. The operating costs of the business unit are high because of the high standards of service which its customers expect, but “Atlantic Limousines” finds it worthwhile to incur these costs because of the high prices which corporate customers are willing to pay.

In recent years, there are numerous issues about the services provided by the 2 market segments, they are:

- 1) Slow in picking up passengers.
- 2) Negative customer service experiences especially the drivers are not courteous.
- 3) Not able to capture repeated corporate business particularly “Atlantic Limousines” business unit due to the bad feedback from the passengers.

The directors of Johannesburg Ltd have not been able assessed the above issues as they are too dependent solely on the performance of each business unit in terms of its monthly profit or loss, cash flow analysis and financial ratios.

However the Financial Director has suggested that, given the very different strategies of the various business units, it may be appropriate to design a balanced scorecard for each business unit to facilitate a more comprehensive analysis of its performance.

#### **Required**

- a) Outline the **FOUR** (4) main perspectives (sections) of a balanced scorecard. (7 marks)
- b) Briefly comment the current situations of Johannesburg Ltd whether emphasis on financial matters alone could lead to overall long term financial success. Discuss the view whether the ‘financial perspective’ should be treated as being of much greater importance than the other three perspectives. (5 marks)
- c) Provide **TWO** (2) examples on how emphasis on financial perspectives would have an effect on the other three perspectives. (4 marks)

- d) For any of the two business units described above, give **THREE** (3) examples of measures which you feel should be included in the 'customer' perspective of that unit's balanced scorecard. Justify how each of these 3 examples could affect the long term financial performance of Johannesburg Ltd.

(9 marks)

**[Total 25 marks]**

#### QUESTION 4

Dungarvan Ltd. is a small manufacturing company. The Managing Director decided some time ago that Total Quality Management (TQM) and a Just-In-Time (JIT) management approach were essential for long-term market success and profitability, and took a number of practical initiatives in this regard. He recently obtained the following quarterly data for last year, which he believes will help him to assess the progress which the company has made towards TQM and JIT:

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
First pass yield	83%	89%	92%	99%
Stock turnover	10 times	15 times	20 times	24 times
Cycle time from customer order to delivery	15 days	14 days	13 days	11 days

Late last year, a design change had the effect of considerably simplifying the composition of one of the company's main products. As a result, manufacture of a unit of this product during Quarter 4 required just 5 standard components. Previously, manufacture of a unit of the product required 20 smaller components, some of which had to be manufactured specially for this product.

#### **Required**

- a) Does the above data indicate that the company is making significant progress towards successful implementation of TQM and JIT? Justify your answer. (8 marks)
- b) Explain how the trends described in this case are likely to lead to the greater market success and profitability anticipated by the Managing Director. (9 marks)
- c) 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. (8 marks)

**[Total 25 marks]**

**END OF QUESTION PAPER**