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**SCHOOL OF ACCOUNTING AND BUSINESS
BSc. (APPLIED ACCOUNTING) GENERAL / SPECIAL DEGREE
PROGRAMME**

END SEMESTER EXAMINATION – JULY 2017

AFM 31130 Strategic Management Accounting

Date : 16th July 2017
Time : 9.00 a.m. - 12.00 p.m.
Duration : Three (03) hours

Instructions to Candidates:

- Answer **ALL** questions.
- The total marks for the paper is 100.
- The marks for each question are shown in brackets.
- Use of scientific calculator is allowed.
- Answers should be written neatly and legibly

Question No. 01

Game Sevana is a small bank located in the North Central Province. As a small bank, Game Sevana provides a rather limited range of services such as mortgage loans, personal loans, savings accounts and certificates of fixed deposit. Game Sevana's management has learned that activity analysis could be used to study the efficiency of the bank's operation.

Required

- i. Explain how activity based management might help a bank like Game Sevana.
- ii. Give four examples of activities that could be observed in Game Sevana's operations.

(Total 10 Marks)

Question No. 02

A computer chip manufacturer spent Rs 20 million to develop a special-purpose moulding machine. The machine has been used for one year and will be obsolete after another 3 years. The firm uses straight-line depreciation for this machine. At the beginning of the second year, a machine sales person offers a new, more efficient machine. It will cost Rs. 12 million, will reduce the annual cash manufacturing costs from Rs. 9 million to Rs. 3 million and will have zero disposal value at the end of 3 years. The old machine's salvage value is Rs. 10 million now and will be Rs. 4 million after three years from now; however, no salvage value is provided in calculating the straight-line depreciation for tax purposes. The firm's income tax rate is 30 percent. The firm desires to earn a minimum after tax rate of return of 12 percent.

Required

Using the net present value method, show whether the firm should purchase the new machine.

(Total 10 Marks)

Question No. 03

Lanka Controls, Inc. (LC), is a large manufacturer of specialized instruments used in automated manufacturing plants. LC has grown steadily over the past several years on the strength of technological innovation in its key product lines. The firm now employs 2,000 production employees and 100 administrative staff and management personnel in 4 large plants located across the island. In the past few years, though the growth of sales and profits of a recent strategic effort, LC has identified its key competitive strengths and weaknesses. LC management believes that critical strengths are in the quality of the product which the weaknesses have been related to customer service, particularly in meeting scheduled deliveries. The failure to meet promised delivery dates can be quite costly to LC's customers, because it is likely to delay the construction upgrading of the customers' plants and therefore delay the customers' production and sales. LC's management believes that the adoption of the Balanced Scorecard (BSC) for internal reporting might help the firm becoming more competitive.

Required

- i. Explain how the BSC might help a firm like LC
- ii. Develop a brief BSC for LC. Give three examples for each of the dimensions of the BSC

(Total 15 Marks)

Question No. 04

Kandy Company recently has acquired the technology needed to produce small, standard, and super water pumps. The monthly budgeted fixed cost for all these three products is Rs. 300,000. The budgeted sales by product and in total for the coming month are as follows:

	Small		Standard		Super	
	Amount	Percent	Amount	Percent	Amount	Percent
Sales Rs.	200,000	100%	400,000	100%	200,000	100%
Variable Costs Rs.	120,000	60%	100,000	25%	100,000	50%
Contribution	80,000	40%	300,000	75%	100,000	50%

Actual Sales are not aligned with the budget; the actual sales details are given below:

Rs.

Small	250,000
Standard	250,000
Super	<u>300,000</u>
	<u>800,000</u>

Required

- Prepare a contribution income statement for the month based on actual sales data.
- Compute the breakeven sales rupees for the month based on budgeted sales, assuming the sales mix remains constant.
- The company's manager notes that the total actual sales were Rs. 800,000 for the month, as same as budgeted. The manager was expecting a healthy profit by producing the water pumps according to the budget. Write a brief note, explaining the reason for this situation.

(Total 15 Marks)

Question No. 05

A local Audit firm has been asked to bid on a contract to perform audits through out the year for four different provinces in the country. If the audit firm is awarded this contract, they must hire 2 new staff members at a monthly salary of Rs. 500,000 per person to handle the additional workload. The managing partner is convinced that obtaining the contract will lead to additional new profit-oriented clients from the respective counties. 1,250 hours are required to complete one audit. Other relevant cost information related to this bid is as follows:

Fixed overheads per annum	Rs. 3,000,000
Variable overheads	Rs. 200/hr.

Required

- i. If the managing partner's estimations are correct, what is the lowest bid that the firm can submit if they wish to maintain 50% contribution to sales ratio?
- ii. State two non-financial benefits that will occur to the audit firm through this contract.
- iii. State three limitations of CVP analysis and how they can be eliminate with reference to this scenario.

(Total 15 Marks)

Question No. 06

Small businesses are usually the first to feel the effects of a recessionary economy and generally are the last to recover. Two major reasons for this are lack of managerial experience and inadequate financing or financial management. Further, small business managers frequently have problems in planning and controlling profits, including revenue generation and cost control activities. These important financial methods are particularly critical during a recessionary period. The financial problems of a small business are further aggregated if the firm is weak accounting records and manager is inexperienced in the management of money.

Required

- i. Profit planning is critical for planning and controlling of profits of a small business. Identify the key features that should be considered when developing a profit plan.
- ii. The management accountant can help to ensure that good accounting records exist in an organization. Discuss the key features that form the basis for a good accounting system that will support management decisions.
- iii. Explain how the management accountant can assist in adopting measures to ensure the appropriate cash management in the organisation.

(Total 15 marks)

Question No. 07

Athula is the owner of Gampola furniture, a manufacturer and distributor of wooden furniture. Business unit manager is currently preparing the annual budget and reviewing the current business plan. The business unit manager presents the final budgets to the Athula for approval. Athula is aware that the upcoming year could be a difficult one because of low demand for the wooden furniture. He also knows that during the budgeting process, budget slack is created in varying degrees throughout the organisation. Athula believes that this slack has a negative effect on the firm's overall business objectives and should be eliminated whenever possible.

Required

- i. What is meant by budget slack.
- ii. Explain the advantages and disadvantages of budget slack from the point of view of the business unit manager who is regard to achieve the budget.
- iii. Athula is considering to implement zero-base budgeting in Gampola furniture.
 - a. Discuss how zero-base budgeting could be beneficial to Gampola furniture in controlling budgetary slack.
 - b. Discuss the disadvantages that Gampola furniture might encounter in using zero-base budgeting.

(Total 20 Marks)