

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

END SEMESTER EXAMINATION – JANUARY 2018

AFM 31130 Strategic Management Accounting

Date : 03rd February 2018
Time : 1.00 p.m. – 4.00 p.m.
Duration : Three (03) hours

Instructions to Candidates:

- Answer **any Five (05)** questions.
- All questions carry equal marks.
- The total marks for the paper is 100.
- Use of scientific calculator is allowed.
- Answers should be written neatly and legibly

Question No. 01

- i. *Defining Strategic Management Accounting (SMA) is difficult and dangerous. That is because SMA is an emerging field whose boundaries are loose.*

Explain three distinct approaches through which SMA can be explained.

(10 Marks)

- ii. *Some authors define Management Accounting change as a movement from mechanistic to post-mechanistic forms.*

Elaborate these two approaches stating clearly the main characteristics of each approach.

(10 Marks)

(Total 20 Marks)

Question No. 02

- i. *Deficiencies and misconceptions of traditional costing system led to the new programme of cost management initiated by Harvard Business School academics.*

Explain three deficiencies and misconceptions of traditional costing system.

(06 Marks)

- ii. Alex Ltd. is engaged in manufacturing three types of shampoos namely, Rose, Jasmine, and Gold. Shampoos named 'Rose' and 'Jasmine' go through a simple production process when compared to 'Gold'. 'Gold' is a low volume and complex product which needs only one production run to process. The information pertaining to costs of production, income and profits based on traditional costing (currently practiced) and Activity Based Costing are given below:

Cost of production	Rose	Jasmine	Gold
Traditional	Rs. 1.30	Rs. 1.30	Rs. 1.35
ABC	Rs. 1.20	Rs. 1.19	Rs. 4.02
Total operating income			
Traditional	Rs. 10,000	Rs. 8,000	Rs. 300
ABC	Rs. 14,958	Rs. 12,240	-Rs. 2,570
Net Profit percentage			

Traditional	13.3%	Rs. 13.3%	18.2%
ABC	19.9%	20.4%	-155.8%

Required:

- a. **Evaluate** implications of the above figures for decision making by the management of Alex Ltd.

(05 Marks)

- b. **Explain** the link between *Activity Based Management* and *Activity Based Costing*.

(04 Marks)

- c. **Differentiate** between *operational* and *strategic* dimensions of *Activity Based Management*.

(05 Marks)

(Total 20 Marks)

Question No. 03

- i. Hope and Fraser (1997) *argue*: “.... *the management accounting model that has served companies well in the industrial age must be changed, if companies are to compete successfully in the information age.*”

Explain clearly the above statement with relevant facts.

(08 Marks)

- ii. **Compare** the following principles of *beyond budgeting* with those of *traditional budgeting*.

- Network organizations
- Anticipatory systems
- A self-governance framework
- Relative targets

(08 Marks)

- iii. **Briefly explain** four challenges associated with implementing a *beyond budgeting approach*.

(04 Marks)

(Total 20 Marks)

Question No. 04

- i. **Explain** two reasons for the development of the Balanced Scorecard (BSC).

(04 Marks)

- ii. Electroluc manufactures an electronic component called XP10 for household market. This component is expensive than similar products sold by Electroluc's competitors. Order-processing time is a little longer but output will be defect free. Bankor Electrics, Electroluc's main competitor, has a product at a lower price but with a higher defect rate and a shorter order-processing time. Electroluc would like to reduce order processing time without significantly increasing costs or hampering its quality. Electroluc's managers believe that bringing down order processing time will increase sales.

Required:

- a. **Draw** a *Customer Preference Map* for Electroluc and Bankor Electrics using the attributes of Price, Quality and Order processing Time.

(04 Marks)

- b. **Develop** a Balanced Scorecard for Electroluc.

(Note: In your answer you are required to specify an objective for each perspective and two measures for each objective.)

(08 Marks)

- c. **Draw** a *Strategy Map* to explain the cause-and-effect relationships in Electroluc's Balanced Scorecard.

(04 Marks)

Total 20 Marks)

Question No. 05

- i. a. **Explain** the importance of *customer-profitability analysis* to managers.

(05 Marks)

- b. 'Medicare International' is a multinational company which distributes pharmaceutical products. It has two major customers and it records all transactions in dollars. The operating income of each customer for the month of August 2017 is given below:

	Customer 1 (\$)	Customer 2 (\$)
Revenues	16,800	18,000
Cost of goods sold	14,700	16,500
Gross margin	2,100	1,500
Operating costs	1,375	1,720
Operating income	725	(220)

- i. **Comment** on the above results for Customer 1 and Customer 2.
- ii. CFO of Medicare ranks the individual customers in the *single-store distribution market* on the basis of monthly operating income. The cumulative operating income of the top 20% of customers is \$62,300. Medicare reports operating losses of \$25,400 for the bottom 40% of its customers.

Evaluate the above analysis done by the CFO of Medicare International in the light of the above information.

(06 Marks)

- ii. a. **Elaborate** three levels of pricing.

(06 Marks)

- b. **Explain** what is meant by *pocket price water fall*.

(03 Marks)

(Total 20 Marks)

Question No. 06

LLC PLC is a listed large-scale company dealing with import and retail sale of used and assembled computers in Sri Lanka. It had been a family-based private company till recently

and became a public listed company by an initial public offering (IPO). Moreover, in order to expand the island-wide network of sales outlets, the company has secured a significant bank loan as well. The sales outlets had increased from 10 to 250 outlets during the past two years.

However, the company is facing severe competition from other small-scale and large-scale companies in the same industry, and from companies that import and sell branded computers. Furthermore, the sales show a significant decline due to customer complaints over the poor quality of computers and unsatisfactory after-sales service. The Finance Director, a qualified professional accountant, has suggested to establish an Enterprise Risk Management (ERM) system to address certain issues, but the Managing Director cum the Chairman of the company, Sarath Silva has rejected the suggestion citing that it is a waste of money that otherwise could be used for more expansions of sales outlets.

Required:

- i. **Evaluate** the *strategic, financial* and *operational* risks faced by LLC PLC.
(06 Marks)
- ii. **Define** what do mean by an enterprise risk management (ERM) system that could be implemented in an entity such as LLC PLC.
(02 Marks)
- iii. **Elaborate** the eight elements of an ERM framework based on the Committee of Sponsoring Organizations of the Treadway Commission, as applicable for LLC PLC.
(08 Marks)
- iv. **Critically evaluate** Sarath Silva's claim that investing in an enterprise risk management is a waste of money.
(04 Marks)

(Total 20 Marks)