UNIVERSITY OF RUHUNA

FACULTY OF MANAGEMENT AND FINANCE

Bachelor of Business Administration Degree Programme 3000 Level
Second Semester End Examination - March 2022

Academic Year 2020/2021

ACC 32133 – Strategic Management Accounting **Duration: Three hours**

The Question paper contains **five** questions.

Instructions:

- Answer all questions.
- Calculators are permitted.

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1. (A). "R. L. Hyderabad (2000) states that an accounting system which provides strategic information may be called as Strategic Management Accounting."

   Briefly explain the objectives of Strategic management Accounting.

   (03 Marks)

   (B). "Large companies produce and sell a wide variety of products throughout the world. Because of the complexity of their operations, it is difficult for top management to directly control operations. It may therefore be appropriate to divide a company into separate self-contained segments or divisions and to allow divisional managers to operate with a great deal of independence".

   Based on the above statement distinguish two organizational structures and critically evaluate one of these structure by highlighting advantages and disadvantages.

   (05 Marks)

   (C). "Companies use many different control mechanisms to cope with the problem of organizational control. To make sense of the vast number of controls that are used we shall classify them into three categories using approaches that have been adopted by Ouchi (1979) & Merchant and Van der Stede".

   Among three categories of organizational control explain briefly two categories of organizational control used by companies.

   (06 Marks)

   (Total Marks 14)

2. (A). "Operating statements show how the combination of variances reconciles budgeted profit and actual profit. This is a regular report for management of actual costs and revenues, usually showing variances from budget." Briefly explain this statement.

(02 Marks)

(B). A company produces and sells one product only. The standard cost and price for one unit being as follows.

	Rs.
Direct material A: 10 kg at Rs. 120 per kg	1,200
Direct material B: 06 kg at Rs. 50 per kg	300
Direct labour: 05 hours at Rs 80 per hour	400
Fixed production overhead	600
Total standard cost per unit	2,500
Standard gross profit per unit	500
Standard selling price per unit	3,000

The fixed production overhead included in the standard cost is based on an expected monthly output of 750 units.

During the month of September, the actual results were as follows.

	Rs.	*Rs.*
Sales 700 units at Rs. 3,200		2,240,000
Less:		
Direct materials: Material A: 7,500 kg	915,000	
Material B: 3,500 kg	203,000	
Direct labour: 3,400 hours	278,800	
Fixed production overhead cost	370,000	
Total actual cost for the month		1,766,800
Total profit for the month		473,200

Required:

i. Calculate all the relevant variances.
ii. Prepare the operating statements using absorption costing method.

(12 Marks)

(Total Marks 14)

3. (A). Briefly discuss how managers with different risk attitudes will evaluate two different investment projects.

(03 Marks)

(B). Briefly explain how you can reduce the risk of investment as a rational investor.

(03 Marks)

(C). A company is deciding whether to develop and launch a new product. Expected research and development costs are Rs.500,000 and there is a 60% chance that the product launch will be successful, and a 40% chance that it will fail. If it is successful, the levels of expected profits and the probability of each occurring have been estimated as follows, depending on whether the product's popularity is high, medium or low:

Product's popularity	**Profits**	**Probability**
High	Rs.600,000 per annum for two years	0.3
Medium	Rs.400,000 per annum for two years	0.5
Low	Rs.300,000 per annum for two years	0.2

If it is a failure, there is a 0.6 probability that the research and development work can be sold for Rs.50,000 and a 0.4 probability that it will be worth nothing at all.

Required;

Draw the decision tree setting out the problem faced by the company. Advice the management of the company, which course of action should be selected based on the decision tree?

(08 Marks)

(Total Marks 14)

4. (A). "In the absence of a perfect market for the intermediate product none of the transfer pricing methods can perfectly meet both the decision-making and performance evaluation requirements." Discuss two transfer pricing methods which can be resolved transfer pricing conflicts.

(05 Marks)

(B). Division A produces goods and transfers them to Division B for further processing, packaging and selling them to outside customers. Division A has costs of Rs.100 per unit, and Division B has additional costs of Rs.60 per unit. Division B sells the goods to external customers at a price of Rs. 200 per unit. Assuming a transfer price between the divisions of Rs.120 per unit and there is no external market for the intermediate goods.

Required;

i. Calculate profit per unit made by each division

ii. Calculate the total profit per unit made by the company overall

(02 Marks)

(C). Division A has costs of Rs.150 per unit, and transfer goods to Division B which has additional costs of Rs.50 per unit. Division B sells externally at Rs.300 per unit. The company has a policy of setting transfer prices at cost plus 20%.

Required;

i. Determine the transfer price

ii. Calculate the profit made by the company overall

iii. Calculate the profit reported by each division separately

(03 Marks)

(D) When there is a perfectly competitive market exist for the intermediate product, what is the best transfer pricing method? Elaborate your answer. Give an appropriate example to support your thoughts.

(04 Marks)

(Total Marks 14)

5. Briefly explain the following terms.

(A). Life cycle costing

(B). Target costing

(C). Balanced scorecard

(D). Environmental cost management

(3.5 Marks each)

(Total Marks 14)

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