	UNIVERSITY OF RUHUNA **FACULTY OF MANAGEMENT AND FINANCE**	No. of Pages : 06 No. of Questions: 05 Total Marks :70
BACHELOR OF BUSINESS ADMINISTRATION HONOURS DEGREE 3000 LEVEL SECOND SEMESTER END EXAMINATION - FEB/MAR 2023		*Three Hours*
ACC 32133- Strategic Management Accounting		Academic Year 2021/2022

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Instructions

- The question paper contains 05 questions.
- Answer all questions.
- Calculators are permitted.

(01)

(A) Define 'Strategic Management Accounting' and outline the differences between management accounting and strategic management accounting.

(04 Marks)

(B) Briefly explain three generic strategies identified by Porter (1985) to achieve sustainable competitive advantages.

(03 Marks)

(C) 'Transfer prices are the prices charged for goods produced by one division and transfer to another for further processing before it is sold as a final product in the outside market. There are six alternative transfer pricing methods to be used in different circumstances'.

Determine the best suited transfer pricing method if an external, perfectly competitive market exists for an intermediate product. Provide justifications for your answer.

(05 Marks)

(D) Define the term 'net marginal revenue' and elaborate its usefulness in transfer pricing decisions.

(02 Marks)

(Total Marks 14)

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(02)

ABC Company has a wide range of manufacturing activities, relating to two divisions located in Colombo, namely supplying division (SD) and receiving division (RD). SD produces intermediate products 'Electric Motors' and transfers to RD at Rs. 500 per unit, for further processing and the final products are sold in the external markets. Further, SD can sell electric motors to external market at a price of Rs. 550 per unit. Similarly, RD can purchase electric motors from an external supplier at a price of Rs. 480 per unit. However, the company policy is to limit external purchases to 10% of the total requirement of the division to ensure the quality of the final product.

SD currently makes internal transfers of 10,000 units and external sales of 3,000 units. Further, SD has the capability to increase the external sales by 35% at the current price of Rs. 550. To fulfil all these requirements, SD incurs a fixed cost of Rs. 10,000 and variable costs of Rs. 80, Rs. 65 and Rs. 55 for direct material, direct labor and variable overheads respectively.

Required:

(A) Given the above circumstances, assume that RD decided to purchase from external suppliers and SD decided to sell electric motors to the external market, as maximum as possible, from next month onwards to maximize their divisional profits.

i. Calculate the current profit of the company.

(02 Marks)

ii. Indicate the impact of above decisions for dealing maximally with external markets, on the profit of SD and for the whole company.

(04 Marks)

iii. Assuming that profit maximization is the ultimate aim of the company, provide your recommendation to the company's management on the above decisions adhering to the conditions specified.

(02 Marks)

(B) Assume that ABC company has changed their transfer pricing policy to sell electric motors at a price of Rs. 600 per unit for both internal transfers and external market which is determined by cost plus 20% profit mark-up. The total cost consists of 60% of variable costs. The total cost of a product includes a packing cost of Rs. 50 per unit which can be eliminated in the internal transfers.

Determine the transfer prices for electric motors in order to maximize the company profit in each of the following situations by applying 'marginal cost-plus opportunity cost method'.

i. SD has an external market for all items of electric motors.

(02 Marks)

ii. Further, SD has the capacity to produce 5,000 units of special electric motors at the same cost, which has no external market.

(02 Marks)

iii. SD can use its production capacity that is equivalent to 3,000 units of special electric motors (out of 5,000 unit capacity identified in the section 'ii' above) to an alternative use which can generate a total contribution of Rs. 150,000.

(02 Marks)

(Total Marks 14)

(03)

(A) Based on the past experience, XYZ Company has presented the following profit variations for three products: A, B and C relating to different demand conditions.

Product	Profit variations (Rs.)		
	Low demand	Moderate demand	High demand
A	50,000	75,000	150,000
B	40,000	85,000	200,000
C	65,000	95,000	140,000

Considering the above situations, give your recommendations relating to the following criteria.

i. Maximin criterion

(01 Mark)

ii. Maximax criterion

(01 Mark)

iii. Regret criterion

(03 Marks)

(B) 'Probability distributions provide more meaningful information than stating the most likely outcome. Instead of presenting probability distributions for each alternative, summary measures are often used: Expected value, Standard deviation and Coefficient of variance'.

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Briefly explain expected value, standard deviation and coefficient of variance.

(03 Marks)

(C) Critically evaluate the appropriateness of applying risk reduction and diversification strategies in investment decisions, using a practical example.

(06 Marks)

(Total Marks 14)

(04)

(I) Theranga PLC manufactures and sells consumer goods. The manufacturing costs comprise of only the direct materials and overheads as the processes have been fully automated from the start of the year 2023. Following information is provided by the company relating to its specific product: Delta, for the month of February 2023.

1. The budgeted production and sales were 5000 packets of this product, but due to the shortage of ingredients, the company could make only the 80% of the target output.
2. The standard ingredients required for one packet (contains 100 pieces) of this product, and prices and actual consumption of these ingredients are given below:

Ingredients	Standard quantity	Standard price per Kg (Rs.)	Actual usage (Kg)	Actual price per Kg (Rs.)
X	750g	200	3200	225
Y	500g	350	1800	360
Z	250g	380	1000	390

* Note that there are 1000grams (g) for a kilogram (kg).

3. Overheads are assigned to products based on the consumption of ingredient Y which denotes moderate consumption. It also applies JIT system in the production process and thus, no need to maintain inventories for both ingredients and final products.
4. Due to the shortages of materials, it is expected that the initially estimated market prices for a kilogram of ingredients X and Y would increase by Rs. 25, and Rs. 30 respectively. It is also expected that the standard usage of ingredient Z would increase by 20% as a result of quality changes of that ingredient available in the market.
5. Budgeted and actual overheads for February 2023 are as follows:

Activity	Budgeted costs (Rs.)	Actual costs (Rs.)	Driver Units consumed
Receipts of supplier deliveries	600,000	740,000	15 supplier deliveries
Dispatch of goods to customers	400,000	460,000	38 customer dispatches
Total costs	1,000,000	1,200,000	

6. Standard quantity for a supplier delivery is 500 Kg and for a customer dispatch is 100 packets.

Required:

(A) Calculate material variances (Price; and usage: yield and mixed variances) and overhead variances (Expenditure; and volume: volume capacity and volume efficiency variances).

(04 Marks)

(B) Calculate the following ex-post variances (controllable and uncontrollable).

i) Material price: planning and operational variances

ii) Material usage: planning and efficiency variances

(03 Marks)

(C) Management requires to undertake an activity-based overhead analysis. For this purpose, you are asked to:

i) Calculate standard cost per supplier delivery and standard cost per customer dispatch.

ii) Prepare 'an activity-based reconciliation statement' for February 2023 showing the activity usage variances and activity expenditure variances.

(03 Marks)

(II) 'The usefulness of standard costing and variance analysis in a modem business environment has been questioned due to several reasons'.

Evaluate this statement stressing the appropriateness of ex-post variance analysis approach in evaluating managerial performances.

(04 Marks)

(Total Marks 14)

(05)

(A) 'Business firms use an activity-based system for both cost management and product costing purposes. However, if needed, they can adopt an activity-based costing system solely for cost management without activity-based product costing'.

In view of the above statement, describe the distinguishing features of 'activity-based costing (ABC)' and 'activity-based management (ABM)' emphasizing the usefulness of applying these techniques for a business firm in achieving its objectives.

(05 Marks)

(B) 'Identifying the costs incurred during the different stages of product's life cycle provides an insight into understanding and managing the total costs incurred throughout its life cycle. In other words, a failure to trace all costs to products over their life cycles hinders management's understanding of product profitability'.

Elaborate the advantages of applying life cycle costing as a cost management tactic for a manufacturing firm, focusing on different stages and investigations involved in this analysis.

(05 Marks)

(C) 'Environmental cost management is becoming increasingly important in many organizations in the world due to several reasons'.

Concentrating on different environmental cost categories, describe the necessity of managing environmental costs in a manufacturing firm.

(04 Marks)

(Total Marks 14)

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