



UNIVERSITY OF RUHUNA

FACULTY OF MANAGEMENT AND FINANCE

**Bachelor of Business Administration Degree Programme 3000 Level Second
Semester End (Repeat) Examination (Old Syllabus) (April 2021)**

ACC 3212: Strategic Management Accounting

Instructions:

Answer five (05) questions only

Calculators are permitted

Time: Three hours (03)

Total Marks: 70

(01)

- I. "Companies use many different control mechanisms to cope with the problem of organizational control".

Briefly discuss the 'Action or behavioral controls' which have been used by companies with suitable examples.

(6 Marks)

- II. Discuss 'Feed-Forward Controls' and 'Feedback Controls' in a Management Accounting Control system with suitable examples.

(4 Marks)

- III. Merchant (1998) had identified three types of uncontrollable factors confronted by a company.

Briefly explain above factors using suitable examples.

(4 Marks)

(Total Marks 14)

(02)

I. Distinguish the terms 'risk' and 'uncertainty'.

(2 Marks)

II. Amaya Company is trying to decide whether or not to advertise an outdoor concert. The sale of tickets is dependent on the weather. If the weather is poor, it is expected that 10,000 tickets will be sold without advertising. There is a 60% chance that the weather will be poor. If the weather is good, it is expected that 20,000 tickets will be sold without advertising. There is a 40% chance that the weather will be good.

If the concert is advertised and the weather is poor, there is a 70% chance that the advertising will stimulate further demand and sales of tickets will increase to 14,000 tickets. If the weather is good, there is a 30% chance the advertising will stimulate demand and sales of tickets will increase to 26,000 tickets.

The profits expected **before deducting the cost of advertising**, at different levels of sales of tickets are as follows:

Number of tickets sold	Profit (Rs.)
10,000	(40,000)
12,000	(10,000)
14,000	70,000
16,000	110,000
18,000	140,000
20,000	180,000
22,000	230 000
24,000	260,000
26,000	300,000

The cost of advertising the concert will be Rs. 30,000

Required:

Determine, whether the concert should be advertised, using a decision tree.

(9 Marks)

III. Outline the strengths and limitations of decision tree analysis.

(3 Marks)

(Total Marks 14)

(03)

- I. "Organizations with multiple responsibility centers usually choose one of two approaches: *Centralized decision making* and *decentralized decision making* to manage their diverse and complex activities. Decentralization is the practice of delegating decision making power to the lower level; in this respect organizations range from highly centralized to strongly decentralized. Although some firms lie at either end of the range, most falls somewhere between the two extremes".

In view of the above statement, critically examine why such organizations are compelled to apply decentralization strategies, highlighting its benefits to the firm and accompanying limitations.

(09 Marks)

- II. Discuss the importance of evaluating both managerial performance and divisional performance for each division of a business entity, with a particular attention to 'Controllability principle'.

(05 Marks)

(Total marks 14)

(04)

The Dumindu PLC. is a manufacturing company operating with two divisions 'A' and 'B'. Division 'A' produces special component 'X' and transfers it to Division 'B' for further processing. With a view of motivating divisional managers for higher performance, the company allows the Division 'A' to sell this component to external buyers and, in turn, the Division 'B' has an option to buy the same component at Rs. 225 per unit from an external supplier but limiting the external purchases to 25% of the total requirement of the division.

The following information is available for Division 'A' relating to the last month.

- a. The total costs of the component is Rs.200 (Variable cost – 60% and fixed costs – 40%)
- b. Selling price is determined based on 'total cost plus markup';

With 20% markup for internal transfers and 25% markup for external sales.

- c. Internal transfers were 4000 units and external sales were 800 units
- d. Division 'A' used its full capacity in the last month.

However, if the Division 'B' decided to buy this component from external suppliers, the Division 'A' expects to increase its external sales by utilizing the capacity at all.

- I. Assume, in view of the above situation, that the Division 'B' decided to purchase from external suppliers to the maximum possible level and Division 'A' decided to expand external sales by utilizing its entire capacity.

Required:

- a. Calculate the existing profit of the Division 'A'
(2 Marks)
- b. Analyze the impact of the above decisions on the profit of Division 'A' and on the Company.
(4 Marks)
- c. Advise the management on the effectiveness of these decisions in the view of maximizing profit for the Company as a whole.
(1 Mark)

- II. Assume that the company decided to apply the same selling price of Rs. 240 for both internal transfers and external sales. The cost structure and profit margin of the unit of component are given below.

	Rs.
Variable cost (including packing cost of Rs. 20*)	100
Fixed costs	<u>80</u>
Total costs	180
Profit	<u>60</u>
Selling price	<u>240</u>

* Packing costs are required to be incurred only for external sales.

Required:

Determine the transfer price at which the Division 'A' should offer to transfer its special component 'X' to Division 'B' in order to maximize the company profit in each of the following situations. Use marginal cost plus opportunity cost method for the assessment.

- a) Division 'A' has an external market for all components processed (5000 units) at a selling price of Rs.240
- b) Conditions are the same as (a), but Division 'A' has a production capacity for 2000 units of components for which **no** external market is available.

(3 Marks)

III Even though different transfer pricing methods are applied by organizations, none of the transfer pricing methods can perfectly meet both the decision- making and performance evaluation requirements due to the absence of a perfect market for the intermediate products.

Considering the above situation, propose two potential transfer pricing methods with examples that can be applied for resolving such transfer pricing conflicts.

(4 Marks)

(Total marks 14)

(05)

- I. "Application of a standard costing system is useful particularly for manufacturing firms to planning, control, motivation, and decision making purposes. However, the usefulness of standard costing variance analysis in a modern business environment has been questioned."

Evaluate this statement depicting possible circumstances

(7 Marks)

- II. Critically evaluates the appropriateness of any **two** of the following transfer pricing methods, highlighting specific situations/ conditions to be considered under each method.
 - a. Market based transfer price
 - b. Marginal cost transfer price
 - c. Full cost transfer price
 - d. Negotiated transfer price

(7 Marks)

(Total marks 14)

(06)

I. Distinguish the features of a traditional cost control system and cost management.

(3 Marks)

II. Evaluate the usefulness of applying target Costing and Kaizen Costing for cost management decisions outlining their features and steps involved in.

(5 Marks)

III. "Environmental cost management is becoming increasingly important in many organizations. However, environmental costs are hidden within general overheads in most cost accounting systems, and thus not allocated to cost objects or they are allocated on an arbitrary basis within the allocation of general overheads".

Discuss the above statement focusing on categories of environmental cost.

(4 Marks)

IV. Outline the goals of Just-In-Time (JIT) system.

(2 Marks)

(Total marks 14)

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