# UNIVERSITY OF COLOMBO, SRI LANKA

## FACULTY OF MANAGEMENT AND FINANCE

Bachelor of Business Administration (Level II – Semester V) Examination - June 2017

## ACT 2301 – Advanced Management Accounting

**Three (03) Hours**

**Answer Any Five (05) Questions**

**Use of Calculators is Allowed**

---

1. i. Discuss the major trends currently seen in the field of Management Accounting and the expanding role of the Management Accountant.

(10 Marks)

ii. Fine Furniture Ltd is a leading import furniture company established in Colombo. It currently also operates two outlets in Kandy and Galle. While Colombo gains the most amount of customer orders and sales, Kandy and Galle record moderate levels in comparison. At a recent board meeting held at Fine Furniture Ltd, the managers were in debate about the suitability of different performance measures for their regional divisions' operations. As the Management Accountant of the company, (a) briefly explain factors to be considered in divisional performance measurement **and** (b) how different performance measurement systems can affect the goal congruence of the overall organization.

(10 Marks)

**(Total 20 marks)**

2. i. What is meant by a transfer price?

(02 Marks)

ii. Outline the different objectives an organization would achieve through transfer pricing.

(04 Marks)

iii. Greenwood company manufactures wooden tables. It operates two divisions, Production and Assembly. The basic structure of the tables is manufactured in the Production Division (PD) and the tables are completed (as GW1) based on customer orders in the Assembly Division (AD). Both divisions produce one type of output only. One unit of output from the PD is needed to complete each unit of GW1. PD transfers to AD all the components needed to produce product GW1. PD also sells components to the external market. The following budgeted information is available for each division.

| | **Production Division (PD)** | **Assembly Division (AD)** |
|---|---|---|
| Market price per unit | Rs. 900 | Rs. 1,200 |
| Production cost per unit | Rs. 600 | |
| Assembly cost | | Rs.400 |
| Non-production fixed cost | Rs. 2,310,000 | Rs. 900,000 |
| External Demand | 10,000 units | 12,000 units |
| Capacity | 22,000 units | |

The production cost per unit is 60% variable. The fixed production costs are absorbed based on budgeted output.

Calculate the profits of both divisions, if the Production Division sets a transfer price of marginal cost plus 70% markup.

(08 Marks)

iv. Identifying its pros and cons to the organization, explain why an organization would choose to adopt a negotiated transfer price.

(06 Marks)

**(Total 20 marks)**

3. i. Based on the different pricing strategies available, suggest how firms would employ them in the following businesses (Note: you are expected to discuss the nature of the product /service and how pricing strategies can be used to establish and maintain its target market).

a) An amusement park

b) A pharmacy for OTC (Over the Counter) medication

c) A fast food restaurant

(04 Marks each x 3 = 12 Marks)

ii. Outline the pros and cons of product bundling.

(04 Marks)

iii. In a world demanding more transparency, briefly explain how companies balance transparency with profit goals through pricing?

(04 Marks)

**(Total 20 marks)**

4. i. Explain how rewards can be tied to performance of an organization.

(04 Marks)

ii. Discuss from a management accounting perspective, why the incentive and compensation system of an organization's top management would receive special attention.

(05 Marks)

iii. 'An organization's preoccupation with short term performance can damage the future potential of the firm'. Discuss this statement with reference to how McDonalds incorporates its long term goals with its performance measurement systems.

(08 Marks)

iv. State three (03) types of rewards suitable for operational level employees of an organization.

(03 Marks)

**(Total 20 marks)**

5. i. In relation to capital investment decisions of an organization, what is meant by the opportunity cost of investment?

(03 Marks)

ii. 'Although both Net Present Value (NPV) and Internal Rate of Return (IRR) methods consider the time value of money, there are certain situations where these two methods would lead to different decisions'. Do you agree with this statement? Give reasons for your answer.

(07 Marks)

iii. With a suitable example, explain how and why qualitative factors need to be considered in capital investment projects of a business organization.

(05 Marks)

iv. Zigma Ltd manufactures plastic items. It is currently appraising the purchase of a new molding machine. The machine is estimated to cost Rs. 55,000 with a useful life of three years. The estimated cash flows of the project are as follows.

| Year | Cash inflow (Rs.) |
|---|---|
| 1 | 18,000 |
| 2 | 29,000 |
| 3 | 31,000 |

The cost of capital of similar projects is 8%.

You are required to;

a) Calculate the NPV of the project.

(03 Marks)

b) Calculate the payback period of the investment in the machine.

(02 Marks)

**(Total 20 marks)**

6. With reference to the research paper 'Japanese cost management meets Sri Lankan politics: disappearance and reappearance of bureaucratic management controls in privatized utility' by Wickramasinghe et al. (2004), Discuss how modes of production and management accounting and controls in less developed countries are related and transformed in an unpredictable and unexpected manner due to cultural, economic and political factors.

**(Total 20 marks)**