

COMMONWEALTH OF AUSTRALIA

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|-----------------|------------------|
| Family Name | |
| Given Names | |
| Student Number | |
| Teaching Period | Semester 1, 2016 |

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|---|--|---------------|-------------------|---------------|--------------------|
| FINAL EXAMINATION | DURATION | | | | |
| ACT302 – Strategic Management Accounting | <table border="1"> <tr> <td>Reading Time:</td> <td>10 minutes</td> </tr> <tr> <td>Writing Time:</td> <td>180 minutes</td> </tr> </table> | Reading Time: | 10 minutes | Writing Time: | 180 minutes |
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| Writing Time: | 180 minutes | | | | |

INSTRUCTIONS TO CANDIDATES

- 1.1 The examination has five (5) Short Essay Questions: Answer ALL (5) questions
- 1.2 Note that each question is of equal value however parts of each question ARE NOT of equal value. Marks as indicated by lecturer
- 1.3 Read ALL questions carefully.

EXAM CONDITIONS

You may begin writing from the commencement of the examination session. The reading time indicated above is provided as a guide only.

This is a RESTRICTED OPEN BOOK examination

Any non-programmable calculator is permitted

No handwritten notes are permitted

Any hard copy, unannotated English dictionary is permitted

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|---|---|
| ADDITIONAL AUTHORISED MATERIALS | EXAMINATION MATERIALS TO BE SUPPLIED |
| No additional printed material is permitted | 1 x 16 Page Book 1 x Scrap Paper |

**THIS EXAMINATION IS PRINTED
DOUBLE-SIDED.**

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The questions should be answered in the Answer Booklet provided.

Marks for each question are indicated.

QUESTION 1

(10 Marks - Suggested time approx. 35 minutes)

“From the standpoint of management control, three topics are unique to multi-national enterprises (MNE’s): cultural differences, transfer pricing, and exchange rates. In addition to goal congruence, other important considerations would include taxation, government regulations, tariffs, foreign exchange controls, funds accumulation and joint ventures.”

In terms of the evaluation of the performance of subsidiaries, (located in countries and jurisdictions different from that of the parent entity), and the managers of these subsidiaries, discuss in detail the implications and/or impact of the issues identified in the statement above. Your answer should include (but not limited to) the negative and positive consequences of various economic exposures, the impact of cultural differences, the impact on and impact of transfer pricing arrangements.

QUESTION 2

(10 Marks - Suggested time approx. 35 minutes)

a) One of the key issues associated with management control is the alignment of the organisation’s interests with those of the management of the organisations (goal congruence). Normally, this is achieved with a compensation plan that rewards executive management for good financial performance. Agency Theory explores how contracts and incentives can be created to motivate individuals to achieve goal congruence. Other theories related to the issue of motivation include Herzberg’s Hygiene Factors and Expectancy Theory.

In this context, discuss the following statement. *‘Managers should be rewarded only on the basis of their performance measures. In other words they should not be paid a fixed salary or other fixed non-financial rewards. The manager’s remuneration should be in a form that directly reflects the performance of the economic unit they are responsible for’.*

Your discussion should include (but not be limited to) whether you agree (or disagree) with the statement and why; and a summary of the motivation theories indicated in the preamble to the question (above); and how these theories relate to this particular statement.

(4 marks - Suggested time 15 minutes)

b) Describe and discuss the advantages and disadvantages associated with each of the following incentive compensation schemes.

- i. Individual incentive plans such as salary increases, bonuses, or other non-financial rewards.
- ii. Profit Sharing and/or Gainsharing plans
- iii. Share option plans
- iv. Team based incentive plans.

(6 marks - Suggested time 20 minutes)

(TOTAL 10 MARKS)

QUESTION 3**(10 Marks - Suggested time approx. 35 minutes)**

- a) Describe and/or define Just-In-Time (JIT) and outline several of the main features associated with JIT. (5 marks - Suggested time approx. 17 minutes)
- b) Traditionally inventory has been held:
- (i) To balance ordering /purchasing or setup costs and carrying costs
 - (ii) To assist in controlling the cost of purchases
 - (iii) To avoid production shutdowns because of unreliable production processes, defective materials & parts, unavailability of raw materials etc.
 - (iv) To satisfy customer demand.

Discuss how the JIT approach responds to the traditional reasons for holding inventory.

(5 marks - Suggested time approx. 18 minutes)

(TOTAL 10 MARKS)

QUESTION 4**(10 Marks - Suggested time approx. 35 minutes)**

- a) Explain what is meant by the terms '*corporate social responsibility (CSR)*'. Is CSR different from 'sustainability' and if so why and if not why not? Your answer should include (but not be limited to) brief definitions of CSR and sustainability; a brief discussion on the differences and similarities of the components of these definitions; (3 Marks - Suggested time 10 minutes)
- b) Explain how life-cycle analysis (LCA) can be used to support an organisation's efforts to be more sustainable. (7 Marks - Suggested time 25 minutes)

(TOTAL 10 MARKS)

QUESTION 5**(10 Marks - Suggested time 35 minutes)**

Consider the following information:

Currently, all of the harvesting Division's output is converted into juice by the Processing Division, and the juice is sold to large beverage companies that produce juice blends for resale. The Processing Division has a yield of 500 litres (Ltr) of juice per 1,000 kilograms of fruit. There are no shipping or marketing cost savings when transferring fruit internally (as compared to acquiring fruit from external suppliers). Cost and market price data for the two divisions are as follows:

| | 200% of Full Costs | Market Price |
|--|---------------------------|---------------------|
| Transfer price per kilo ((A\$0.10 + A\$0.25) × 2) | 0.70 | |
| Transfer price per kilo (A\$0.60) | | 0.60 |
| 1. Harvesting Division | \$ | \$ |
| Revenues (400,000 kg × A\$0.70) | <u>280,000</u> | |
| Revenues (A\$0.60) | | <u>240,000</u> |
| Costs | | |
| Division variable costs (400,000 kg × A\$0.10 per kg) | 40,000 | 40,000 |
| Division fixed costs (400,000 kg × A\$0.25 per kg) | <u>100,000</u> | <u>100,000</u> |
| Total division costs | <u>140,000</u> | <u>140,000</u> |
| Division operating profit | <u>140,000</u> | <u>100,000</u> |
| Harvesting Division manager's bonus (5% of operating profit) | 7,000 | 5,000 |
| 2. Processing Division | | |
| Revenues (200,000 Ltr × A\$2.10 per L) | <u>420,000</u> | <u>420,000</u> |
| Costs | | |
| Transferred-in costs | 280,000 | 240,000 |
| Division variable costs (200,000 Ltr × A\$0.20 per L) | 40,000 | 40,000 |
| Division fixed costs (200,000 Ltr × A\$0.40 per L) | <u>80,000</u> | <u>80,000</u> |
| Total division costs | <u>400,000</u> | <u>360,000</u> |
| Division operating profit | <u>20,000</u> | <u>60,000</u> |
| Processing Division manager's bonus (5% of operating profit) | 1,000 | 3,000 |

a) Discuss the goal congruence problem(s) that will arise if the company continues to mandate the use a transfer price of 200% of full cost.

(4 marks - Suggested time 15 minutes)

b) Discuss the implications of introducing each of the following transfer pricing methods;

- I. market price transfer pricing policy
- II. negotiated (between divisions) transfer pricing policy
- III. dual transfer-pricing policy (i.e. transfers out of harvesting are made at 200% and transfers into processing are made at market price)

(6 marks - Suggested time 20 minutes)

(TOTAL 10 MARKS)