(NBAA)
NATIONAL BOARD OF
ACCOUNTANTS AND AUDITORS
TANZANIA

QUESTION PAPER

FOR

INTERMEDIATE LEVEL EXAMINATION

MAY 2024

EXAMINATION CODE NUMBER: B5

Time allowed: *Three hours*
Instructions on the number of questions to be answered are stated on the first page of the question paper and are to be carefully complied with.

EXAMINATION : INTERMEDIATE LEVEL

SUBJECT : PERFORMANCE MANAGEMENT

CODE : B5

EXAMINATION DATE : FRIDAY, 10TH MAY, 2024

TIME ALLOWED : THREE HOURS (9.00 A.M. – 12.00 NOON)

GENERAL INSTRUCTIONS

1. There are **TWO** Sections in this paper. Sections **A** and **B** which comprise a total of **SIX** questions.
2. Answer question **ONE** in Section **A**
3. Answer **ANY FOUR** questions in Section **B**.
4. In total answer **FIVE** questions.
5. Marks are shown at the end of each question.
6. Show clearly all your workings in respective answers where applicable.
7. State clearly any assumptions made in your answers where applicable.
8. Calculate your answers to the nearest one decimal point where necessary.
9. Graph papers and mathematical tables will be provided where applicable.
10. This question paper comprises **8** printed pages.

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SECTION A
Compulsory Question

QUESTION 1

Habari Company Limited (HCL) is a magazine publishing company. It comprises several different divisions, each publishing magazines in a different sector. HCL is now considering publishing a Business Magazine. The Business Magazine market is very competitive with several well-established titles already being published by HCL's competitors. Business Magazine is a monthly magazine.

HCL has therefore, commenced an advertising campaign to launch its Business Magazine. The price of the Business Magazine has been set at full cost plus a mark-up of 20%. The forecasted cost for publishing a copy of Business Magazine is provided below:

Forecast variable cost per copy of the Business Magazine:

	TZS.
Paper	166
Ink	See note (i)
Machine cost	44
Other variable cost	30

The following additional information is available:

(i) Each Business Magazine needs 0.2 litres of ink. However, 10% of the ink input to the printing process is wasted. Ink costs TZS.1,080 per litre.

(ii) In 1st month, HCL expects to sell 50,000 copies of the magazine to new customers at this price.

(iii) After their 1st month of sales, HCL expects 90% of 1st month's customers to purchase the Business Magazine in 2nd month. After the 2nd month of purchase, HCL expects to retain 85% of 2nd month customers in subsequent months.

(iv) As the magazine circulation area increases, sales to additional new customers in 2nd month will be 20% of 1st month sales figure. 90% of this would be retained in 3rd month.

(v) Sales to additional new customers in 3rd month would be 30% of 1st month sales figures.

(vi) Fixed overhead costs are apportioned by HCL to the Business Magazine based on first-month sale volume. The total budgeted annual fixed overhead is TZS.3,600,000,000 and the total budgeted annual magazine sales, including the Business Magazine, is 12,000,000 copies.

(vii) The sales price of the Business magazine will remain unchanged throughout the first three months.

REQUIRED:

(a) Discuss any two (2) advantages and two (2) disadvantages of the Managing Director's pricing strategy in the circumstances described above. **(4 marks)**

(b) Produce a statement that show the total profit for the first three months of Business Magazine. **(10 marks)**

(c) Calculate the number of copies of the Business Magazine that need to be sold to achieve a profit of TZS.20,000,000. **(6 marks)**

(Total: 20 marks)

SECTION B

There are **FIVE** questions. Answer **ANY FOUR** questions

QUESTION 2

The top Management of Katizi Company has for several months been puzzled by fluctuations in the income as reported by the accountant. The results for February, March and April 2024 have been reported to Management as follows:

	February TZS.	**March TZS.**	**April TZS.**
Sales	1,800,000,000	1,800,000,000	900,000,000
Less:			
Manufacturing cost of sales	(1,660,000,000)	(1,360,000,000)	(430,000,000)
Selling and administrative expenses	(440,000,000)	(440,000,000)	(440,000,000)
Net income/(loss)	**(300,000,000)**	-	**30,000,000**

There have been no change in the selling price during the three-month period. During the months of February and March, the company sold 30,000,000 units in each month, and 15,000,000 units were sold in April.

The production for the three months were as follows:

	February	**March**	**April**
Opening stock (Units)	30,100,000	100,000	100,000
Production during the month	-	30,000,000	60,000,000
	30,100,000	30,100,000	60,100,000
Units sold	30,000,000	30,000,000	15,000,000
Closing inventory	100,000	100,000	45,100,000

The standard cost for the units produced and sold has been computed from the following:

	Cost (TZS.) per 1,000 units
Direct material and labour	30,000
Variable overheads	2,000
Fixed overheads	10,000
	42,000

The fixed manufacturing costs budgeted for each of the months is TZS.400,000,000. There were no spending or efficiency variances during the three months in respect of the fixed overheads. All selling and administrative expenses were of a fixed nature.

REQUIRED:

(a) Prepare the comparative Income Statements for three months using variable costing approach. **(15 marks)**

(b) Comment on the relative strength of variable costing over absorption costing, approach making reference to the income statements prepared in (a) above. **(5 marks)**

(Total: 20 marks)

QUESTION 3

(a) Dekwa manufactures and sells a single product. The company operates a standard marginal costing system and a Just-In-Time purchasing and production system. No inventory of raw materials or finished goods is held. Details of the budget and actual data for the period are as follows:

Budget data

Standard production cost per unit:

		TZS.
Direct material	8kg @ TZS.2,160 per kg	17,280
Direct labour	1.25 hours @TZS.3,600 per hour	4,500
Variable overhead	1.25 hours @TZS.1,200 per direct labour hour	1,500

Standard selling price: TZS.36,000 per unit
Budgeted fixed production overhead: TZS.34,000,000
Budgeted production and sales: 10,000 units

Actual Data:

Direct material 74,000kg @TZS.2,240
Direct labour: 10,800 hours @TZS.3,800 per hour
Variable overheads: TZS.14,000,000
Actual selling price: TZS.36,800 per
Actual fixed production overhead: TZS.33,600,000
Production and sales: 9,000 units

REQUIRED:

Using marginal costing approach, prepare a statement that reconciles the budgeted contribution and the actual contribution. (your statement should show the variances in as much details as possible) **(14 marks)**

(b) Total Quality Management (TQM) ensures that all components of an industry work together with goods to improve the quality of its services and products.

REQUIRED:

Discuss any three (3) features of Total Quality Management (TQM). **(6 marks)**

(Total: 20 marks)

QUESTION 4

(a) Mataa Company manufactures and sells lighting fixtures. Estimated sales for the three months starting July 2024 are as follows:

Month	TZS.
July	700,000,000
August	1,000,000,000
September	800,000,000

Sales for May and June 2024 are expected to be TZS.600,000,000 and TZS.800,000,000 respectively. All sales are on credit. Mataa estimates that 60% of its receivables are collected in the calendar month of sale, 30% in the calendar month following the month of sale and 7.5% two months after the calendar month of sale, with the remainder being treated as bad debts. Each unit sells for TZS.30,000 and the cash balance at 1st July is expected to be TZS.200,000,000.

Generally, 60% of the purchases are due and payable in the calendar month of purchase, with the remainder being payable the following calendar month. Purchase cost per unit is TZS.18,000. Mataa maintains an end of the month inventory of 2,000 units plus 10% of the next month's unit sales. The company pays TZS.240,000,000 per month for selling and administration expenses.

Mataa has a loan repayment of TZS.250,000,000 scheduled for September 2024. Rent for the premises is TZS.1,200,000,000, payable in equal quarterly installments. The next due date is July 2024.

REQUIRED:

Prepare a monthly cash budget for each of the month of July, August and September 2024 in a columnar form. **(10 marks)**

(a) It is argued that the extent of budget performance is influenced largely by the extent of involvement of all persons connected with the budgeting process

REQUIRED:

Explain any three (3) advantages and two (2) disadvantages of employee participation in budgeting **(5 marks)**

(b) Management Accountants are often engaged in decision-making processes that would yield optimal results, given a limited number of resources available. Such decisions are expected to yield shareholders wealth maximization through the maximization of profits. Unfortunately, however, constraints sometimes lead to satisfying rather than optimizing decision-making

REQUIRED:

Explain how constraints, satisficing and optimizing affect the management accountant's decision. **(5 marks)**

(Total: 20 marks)

QUESTION 5

DEMO Ltd provides buffer storage for many companies throughout the country. The company has two divisions namely; Demarai and Motalia. Each division is autonomous and makes its own long-term investment decisions.

DEMO Ltd measures the performance of its divisions using Return on Investment (ROI), calculated using controllable profit and average divisional Net Assets. The company has a cost of capital of 12% but a targeted ROI of 18%. The Divisional Managers' annual bonus is determined by the extent to which the ROI earned by the division exceeds the target.

At the beginning of the year 2023, the two divisions Demarai and Motalia, bought assets worth TZS.2.5 billion and TZS.3.642 billion respectively. The assets have a five-year life span with no residual value. The company uses straight line depreciation method. The other assets are being controlled by head office.

Over the years, DEMO Ltd has been using ROI in evaluating the performance of managers. However, to discourage dysfunctional behaviour, DEMO Ltd is considering introducing Residual Income (RI) as a performance measure. Like ROI, RI is calculated using controllable profit and average divisional assets. The current year's draft operating statement is shown below:

	Demarai	**Motalia**
	TZS. '000'	**TZS. '000'**
Sales	3,070,000	3,404,000
Less controllable variable cost	1,501,000	1,790,000
Contribution	1,569,000	1,614,000
Less fixed cost (i) & (ii)	1,267,000	1,382,000
Profit	**302,000**	**232,000**

Additional information:

(i) Included in the fixed cost is the current year depreciation charge of TZS.625 million and TZS.910 million for divisions Demarai and Motalia respectively. Twenty percent (20%) of the depreciation cost in each division is from assets owned and controlled by the head office.

(ii) The head office allocates some of its overhead costs to the two divisions using Activity-Based Costing (ABC). These costs have been included in the fixed cost and amounted to TZS.42,000,000 and TZS.46,000,000 for Demarai and Motalia respectively.

(iii) The Management Accountant stated at a recent Board meeting that *"Responsibility accounting is based on the application of the controllability principle"*. Hence, he would resist any attempt by Management to deviate from its basic principle.

REQUIRED:

(a) Discuss the "controllability principle" and explain why its application is difficult in practice. **(4 marks)**

(b) Calculate the current year's controllable profit for both "Demarai and Motalia" divisions of DEMO Ltd. **(4 marks)**

(c) Calculate the current year ROI for each of the two divisions of DEMO Ltd. **(3 marks)**

(d) Calculate the current year RI for each of the two divisions of DEMO Ltd. **(4 marks)**

(e) Discuss the performance of the two divisions for the year 2023. **(5 marks)**

(Total: 20 marks)

QUESTION 6

(a) In decision making an organization needs to analyze different decision alternatives by using both quantitative and qualitative factors to come up with the best decision.

REQUIRED:

Explain the importance of qualitative factors in decision making. **(4 marks)**

(b) Saint James processing factory is situated at Nyakahoja Street in Mwanza region. The factory has a branch in Shinyanga for cheap car seats. The Branch produces 200,000 medium seats per annum when everything is fine at normal capacity. It incurs direct cost of TZS.780, Variable overheads of TZS.250 and Direct labour of TZS.210. These make a total variable cost of TZS1,240. The process uses TZS.400 as fixed cost (overheads). The selling price of each seat is TZS.2,100 with variable selling and administrative expenses of TZS.60 per seat. The process has been affected by an introduction of another plant which produces the same product perhaps with more quality than them. Next quarter, only 10,000 units of seats can be produced, this situation makes the Managements to come with option of shutting down the plant, estimating that the fixed manufacturing costs can be reduced to TZS.7,400,000 for the quarter.

When the plant is operating, the fixed overhead are incurred at a uniform rate throughout the year. Additional costs of the plant shutdown are estimated at TZS.1,400,000.

REQUIRED:

Advise Management of Saint James whether to shut down the plant or not. Give reasons for your decision. **(6 marks)**

(c) The General Manager of Mtemi believes that fixed overheads are just fixed and thus fixed overheads variances cannot aid any decision.

REQUIRED:

Describe any four (4) points you are going to use in your response to the Manager's belief. **(5 marks)**

(d) Comment on any four (4) considerations that the company should make in relation to the decision to adopt Just in Time (JIT) system. **(5 marks)**

(Total: 20 marks)