EVALUATION GUIDELINES - Written examination

EXC 21221
Strategic Management Accounting

Department of Accounting, Auditing and Business Analytics

Start date:	29.11.2018	Time 09:00
Finish date:	29.11.2018	Time 14:00

For more information about formalities, see examination paper.

Question 1 (10%)

COGS	3 234 000
Increased inventory	116 000
Payable operating costs	829 000

Total, ex VAT	4 179 000
Total, incl. 25.00% input VAT	5 223 750
- Increased balance of A/P	288 000
= Payment to suppliers in January 2018	4 935 750

Question 2 (10%)

Sales income in January, incl. 25.00% output VAT	2 025 000
Sales income in February, incl. 25.00% output VAT	650 000
Sales income in March, incl. 25.00% output VAT	750 000
Three groups of customers:	
Credit customers	60.00%
Cash payers	24.00%
Credit card payers	16.00%
Balance on A/R 1st January 2018	510 000
Cash customers in January	2 025 000 * 24.00% = 486 000
Cash customers in February	650 000 * 24.00% = 156 000
Cash customers in March	750 000 * 24.00% = 180 000
Credit customers in January	2 025 000 * 60.00% = 1 215 000
Credit customers in February	650 000 * 60.00% = 390 000
Credit card customers in January	(2 025 000 * 16.00%) * 97.00% = 314 280
Credit card customers in February	(650 000 * 16.00%) * 97.00% = 100 880
Credit card customers in March	(750 000 * 16.00%) * 97.00% = 116 400

Paid by the customers in Q1	3 468 560

Question 3 (10%)

Cash flow from operational activities	X
Cash flow from investing activities	0
Cash flow from financial activities	-140 000-208 000 = -348 000
Net cash flow	1 506 000 – 1 058 000 = -448 000

X = -100 000

Question 4 (10%)

If we use the structure of the *indirect version of the cash flow budget*, we have a model that starts with the company's budgeted profit and ends up with the net change of cash flow in the same period.
Typically, a cash-flow budgeting model based on the indirect method will look as follows:

Profit before taxes
- Paid taxes
+ Depreciation
+/- Change in inventory (increase is deducted; decrease is added)
+/- Change in Accounts Receivable (increase is deducted; decrease is added)
+/- Change in Accounts Payable (increase is added; decrease is deducted)
+/- Change in other items where payments are not done in the same period as the costs are taken, such as accruals for holiday pay for instance
= Cash flow from operating activities

+ Incoming payments from sales of fixed assets
- Outgoing payments from purchases of fixed assets
+ Incoming payments from sales of shares in other companies
- Outgoing payments from purchasing shares in other companies
= Cash flow from investing activities

+ Incoming payments from borrowing
- Outgoing payments from paying back loans
+ Incoming payments from emission of new shares
- Payment of dividend to share holders
= Cash flow from financing activities

Question 5 (10%)

Variable activity costs	1 397 120 * 25.00% = 349 280
Fixed activity costs	1 397 120 * 75.00% = 1 047 840
Budgeted activity level	666 quality controls
Available resources	666/0.75 = 888 quality controls
Excess capacity	222 quality controls
Activity rate, fixed costs	1 047 840/888 = 1 180 per control
Cost of excess capacity	1 180 * 222 = 261 960

The cost of excess capacity equals the additional cost of actually having the possibility to perform 222 quality controls more than what the actual situation suggests today. This flexibility can be necessary to have if the company plans to grow, or if there are fluctuations in the activity level and the output is not evenly distributed through the year.

If the company wants to reduce costs for excess capacity, management can choose between different strategies:

- They can plan for future growth
- They can try to make activity costs (or parts of them) variable, for instance by outsourcing this function to a company that can charge them according to the number of quality controls actually performed
- They can find alternative use for the resources tied up in quality controls, either internally, by organizing in a more flexible way or externally, by offering quality control services for other companies.

Question 6 (10%)

Indicative solution:
With traditional accounting models, we may pull out reports showing contribution margin per customer or customer group, if we add one dimension in the accounting system on top of the account code.
If for instance a wholesaling company sells grocery products to both Reitan-Gruppen and Norgesgruppen, the systems may record sales income and cost of sales for goods being sold to these customers, enabling us to have information of the contribution margins before any customer-related costs.
With ABC, we can identify activities within for instance sales and marketing that relates to serving different customers or customer groups and log the activity frequency for each relevant cost object.

We may have customer related costs caused by customer behavior and needs that may influence our resource consumption. A single customer/customer group may for instance:
- Demand frequent status reports or meetings
- Have special requirements for documentation
- Have special requirements for transportation
- Make us produce in varying quantities
- Make us develop specially designed products and services
- Have special routines for complaints
- Demand that we keep a certain buffer on our inventories
- Demand that we tie up production capacity

Question 7 (10%)

Both Porter's Value Chain and Lean Manufacturing are models that explain value creation in terms of a company's activities, and focuses on what we do, rather than on what we have (resources).
Both models focus on processes; the set of activities in a given sequential order that are necessary to carry out to produce a single product. Neither of the models are very good at explaining value creation in service rendering companies.

In the Value Chain activities are grouped in two main groups; primary activities and supporting activities. The primary activities are the activities necessary for developing, producing, selling and distributing a given product or the total product assortment of the company. The supporting are necessary activities and functions that enable the company to focus on value creation in the primary activities, but these activities are not directly adding value to the product.
In Lean Manufacturing we split between value adding and value bearing activities. Value adding activities contribute directly to something that the customer is willing to pay for, while value bearing activities have internal users. The value adding activities are often the same as you will find as primary activities in the Value Chain, while the value bearing activities are often similar to the supporting activities.

Question 8 (10%)

A KPI is a parameter that measures the performance within a key area of the company. These key areas must be of a critical nature to the company; critical success factors that we need to gain control over to reach our long-term and overall goals.

The KPI is measured and expressed in quantitative terms. A lead KPI determines if the underlying assumptions for success in another area are met, while a lag KPI measures the actual performance in the area where we want to succeed.

The KPI is important in a management control system because it gives important information to managers on how the organization is performing in various areas. The KPI measures not only financial performance, but is also relevant in areas of a non-financial nature, such as for instance quality, customer satisfaction and ability to deliver

Question 9 (10%)

The infrastructural perspective focuses on the company's resources and capacity, while the internal processes focus mainly on efficiency, quality and logistics.

Examples of generic critical success factors in the infrastructure and resource perspective are:

- Sufficient production and administrative capacity
- Development of relevant competence and skills
- Development of a satisfied and motivated workforce
- Development of network, relations and alliances
- Product- and technology development
- Health, security and environmental issues
- Databases, procedures, protection of information and data

Examples of generic critical success factors within the internal process perspective are:

- More effective production
- Improved production quality
- Reduced off-line time on ICT and production systems
- Ability to deliver on time
- Reduced waiting and/or transportation time

Question 10 (10%)

When we design a balanced scorecard model we will define a number of critical success factors; things that must happen along the way to reach the long-term overall goals. These critical success factors interdepend on each other, because we must gain control over one critical to make for success in another.

These relationships can be shown in a strategy map, where the way to reaching the long-term financial goals is shown, step by step. In a strategy map we will normally see that in order to reach financial goals such as for instance ROA/ROE, we must gain necessary control over various success factors within the customer and market perspective, such as customer loyalty and satisfaction and brand recognition. Success in the market place will only be possible when the company has well-functioning internal processes, securing on-time delivery of goods and services with the right level of quality. These internal processes will require focus on infrastructural factors such as competence, capacity and use/development of quality are normally relevant.