

**PAPER – 15**  
**MANAGEMENT ACCOUNTING-ENTERPRISE PERFORMANCE**  
**MANAGEMENT**

**TEST PAPER – IV/15/EPM/2008/T-2**

**Section A**  
**Multiple Choice Questions**  
**(All questions carry equal marks. Total Marks for this Section - 50)**

**Answer ALL the 20 questions in this Section**

**1.** Balanced Scorecard is a methodology dealing with

Choice :

- A) Strategy management and performance measures
- B) Strategy deployment and performance measures
- C) Strategy deployment and performance management
- D) Strategy management and performance management

**2.** Given:

Cost of risk free debt	=	8.5%
Market premium	=	6%
Beta	=	0.8

what is the cost of equity?

Choice

- A) 12.8%
- B) 15.3%
- C) 11.6%
- D) 13.3%

**3.** Which one of the following is not included as a criterion for determining a reportable segment given by the 10% threshold limit?

Choice

- A) Net worth
- B) Sales
- C) Assets
- D) Net income

Cont'd.....2

-: 2 :-

4. Which one of the following is not a basic element in a control system?

Choice

- A) A comparator/assessor
- B) An effector or action taking subsystem
- C) The causative factor of deviation
- D) A control object or variable to be controlled

5. The following table captures some of the distinctions between strategic planning and management control. The only catch is the pairs are not matched properly.

	(a) Strategic planning	(b) Management control
1	On one aspect at a time	Lead to desired results
2	Unstructured and irregular: each problem different	Integrated; more internal and historical; more accurate
3	Tailor-made for the problem; more external and predictive; less accurate	Rhythmic: prescribed procedures
4	Show expected results	Emphasis on both planning and control
5	Planning dominant, but some control	On whole organization

When rearranged how would this table look like?

Choice

- A) 1a 5b, 2a 1b, 3a 2b, 4a 3b, 5a 4b
- B) 1a 5b, 2a 3b, 3a 2b, 4a 1b, 5a 4b
- C) 1a 4b, 2a 3b, 3a 2b, 4a 1b, 5a 5b
- D) 1a 2b, 2a 3b, 3a 5b, 4a 4b, 5a 1b

6. Which of the following is NOT a basic problem in design of organization structure

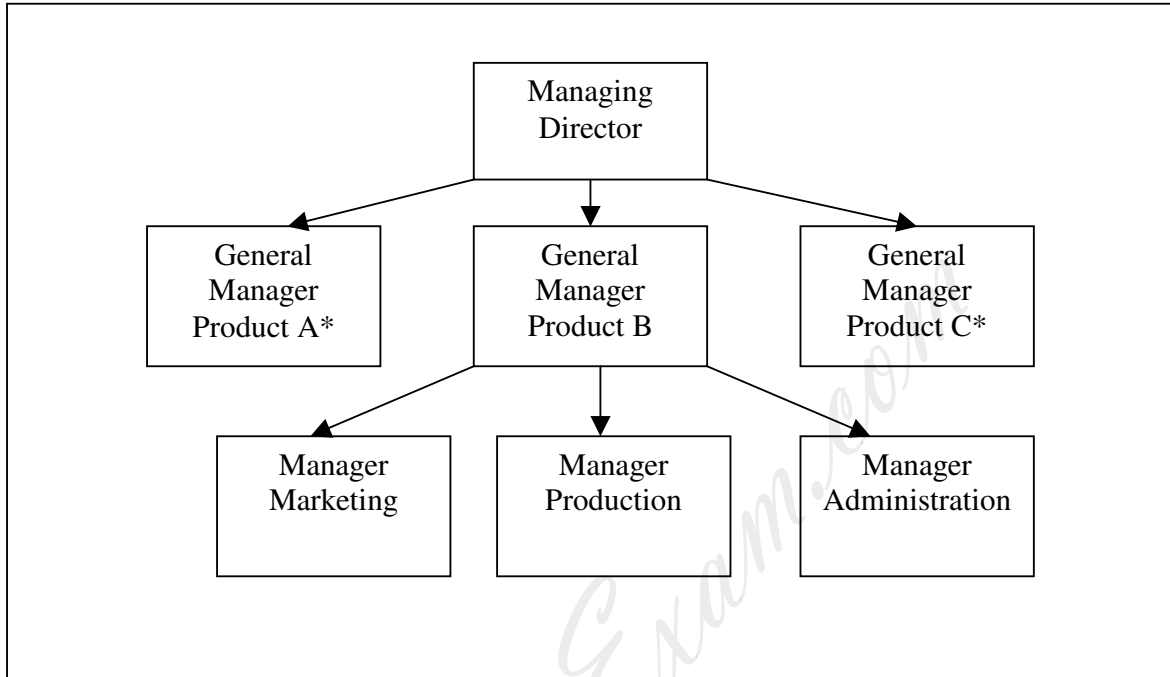
Choice

- A) Ensuring coordination
- B) Recognizing behavioral issues
- C) Ensuring functional excellence
- D) Ensuring synergy between operational units

Cont'd.....2

-: 2 :-

7. What type of organizational structure would look like the following diagram?



\* Similar set up for 'A' and "C"

Choice

- A) Matrix
- B) Functional
- C) Divisional
- D) Hybrid

8. Which two of the following do not belong to the Lean Accounting tool set?

- a. Value stream mapping
- b. Six sigma
- c. SOFP
- d. Cost driver analysis
- e. Visual performance boards
- f. Transaction elimination matrix

Choice

- A) b, d
- B) b, c
- C) c, d
- D) a, f

Cont'd.....3

-: 3 :-

9. Here is a list of attributes a company seeks to attain. Classify them into Order Winners and Order Qualifiers by marking them as 'W' or 'Q' respectively.

- a) On time Delivery
- b) Lower cost of operation
- c) Zero defects
- d) Process innovation
- e) Complete product range

If your classification is correct, which of the following would it match with?

Choice

- A) WWWQQ
- B) WWWQW
- C) WQQWW
- D) WQWQW

10. Which among the following does not fit in the design of major parent categories that represent virtually all the content on a corporate intranet

- a) News
- b) About Us
- c) Products & Services
- d) Forms & Tools
- e) Resources
- f) HR

Choice

- A) e
- B) d
- C) b
- D) a

11. Which of the following statements is not true?

Choice

- A) Technology and transferability of the process to other products is intertwined with long-term capacity planning
- B) Capacity planning is relevant in both the long term and the short term since the same issues are at stake for both.

Cont'd.....4

-: 4 :-

C) Alternatives for making short-term changes in capacity can include the decision to not meet demand at all

D) Capacity requirements planning is only applicable in firms using MRP or MRP II.

**12.** “An application of functional process benchmarking that compares a particular business function at two or more organisations, selected without regard to their industry.”

The above definition applies to which of the following

Choice

- A) Strategic benchmarking
- B) Functional benchmarking
- C) Generic benchmarking
- D) Process benchmarking

**13.** Which among the below is not one of the four basic phases that constitute the QFD methodology”

Choice

- A) Process Planning
- B) Part Deployment
- C) Product Development
- D) Product Planning

**14.** Which one of the following does not belong to the five general types of risks companies face?

Choice

- A) Technological risks
- B) Market risks
- C) Operational risks
- D) Legal risks

**15.** Given:

Sales Rs 100000  
V. Cost 40000  
F Cost 25000

Which of the following changes will affect the profit most”

A 10% change in

Cont'd.....5

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Choice

- A) Fixed Cost
- B) Selling Price
- C) Unit Variable Cost
- D) Sales volume

16. The probability of an expected profit of Rs 2000 is 0.34,  
The probability of an expected profit of Rs 1850 is 0.15  
The probability of an expected profit of Rs 1000 is 0.30  
The probability of an expected loss of Rs 3000 is 0.21

What is the probability of a profit of Rs 1000 or less?

Choice

- A) 0.30
- B) 0.49
- C) 0.51
- D) 0.21

17. For a project the following data is given:

Best revenue estimate	Rs 3000 crores
Likely revenue estimate	Rs 1800 crores
Worst revenue estimate	Rs 1500 crores
Expected Revenue	Rs 2500 crores
Standard Deviation	Rs 600

What is the coefficient of variation?

Choice

- A) 600 / 3000
- B) 600 / 3100
- C) 600 / 2150
- D) 600 / 2500

18. Which of the following statements is not an attribute of Decision Trees?

Choice

- A) Clearly lay out the problem in a graphic visual manner ,so that all options can be challenged
- B) The decision tree can become more complicated by the inclusion of more and more alternatives.

Cont'd.....6

-: 6 :-

C) The decision tree can become less complicated by the inclusion of alternatives that are interdependent

D) Provide a framework to quantify the values of outcomes and the probabilities of achieving them

19. Which one of the following does not belong to the quality trilogy of Joseph Juran?

Choice

- A) Quality Function Deployment
- B) Quality Improvement
- C) Quality Control
- D) Quality Planning

20. Which of the following statements is not one of the Four Absolutes of Quality Management as per Phil Crosby

Choice

- A) Quality prevention is preferable to quality inspection
- B) Zero defects is the quality performance standard
- C) Quality is measured in monetary terms – the price of non-conformance
- D) Quality is exceeding customer expectations

### Section B

#### Short Answer Questions

(Each question in this section carries 6 marks. Total Marks for this Section – 30)

Answer ALL the 5 questions in this Section

1. Briefly outline the behavioral issues encountered while introducing the budget process as a part of management control system in an organisation.

2. Describe briefly the Learning and Growth Perspective and recommend suitable performance measures

3. A company has six industry segments with operating profits and losses as follows:

Industry Segment	Operating profit (Loss) (Rs in lakhs)
1.	8
2.	2
3.	16

Cont'd.....7

-: 7 :-

- 4. (3)
- 5. (2)
- 6. (20)

Which are the reportable segments for the company?

- 4. What are the three key performance measurements to evaluate in Goldratt's Theory of Constraints? Briefly explain how they are to be used.
- 5. A software company has just won a contract worth Rs.80,000 if it delivers a successful product on time, but only Rs.40,000 if it is late. It faces the problem now of whether to produce the work in-house or to sub-contract it. To sub-contract the work would cost Rs.50,000, but the local sub-contractor is so fast and reliable as to make it certain that successful software is produced on time.

If the work is produced in-house the cost would be only Rs.20,000 but, based on past experience, would have only a 90% chance of being successful. In the event of the software not being successful, there would be insufficient time to rewrite the whole package internally, but there would still be the options of either a 'late rejection' of the contract (at a further cost of Rs.10,000) or of 'late sub-contracting' the work on the same terms as before. With this late start the local sub-contractor is estimated to have only a 50/50 chance of producing the work on time or of producing it late. In this case the sub-contractor still has to be paid Rs.50,000, regardless of whether he meets the deadline or not.

Draw a decision tree for the software company, using squares for decision points and circles for outcome (chance) points, including all relevant data on the diagram

**Section C**  
**Long Answer Questions**  
**(Total Marks for this Section - 20)**

**Answer ONE question from this Section**

- 1. A company manufactures three products – X,Y and Z, whose direct costs are given below:

	X	Y	Z
C	Rs.	Rs.	Rs.
Direct material	67.92	63.27	56.79
Direct labour @ Rs. 3/hour):	30.00	40.00	50.00

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Machining	13.08	14.73	17.01
Assembly	24.00	27.00	31.20
	<u>105.00</u>	<u>105.00</u>	<u>105.00</u>

The data below was used in calculating the direct labour costs above, and will be used to determine the production overhead charged to each product under the 'traditional' costing method.

	X	Y	Z	Total
Machine time(hours)	11.00	9.00	8.00	
Direct labour (hours):				
Machining	4.36	4.91	5.67	
Assembly	8.00	9.00	10.40	
Production(units)	50,000	30,000	16,250	
Total Machine hours	500,000	270,000	130,000	<u>900,000</u>
Total Labour hours				
Machining	218,000	147,300	92,137	457,437
Assembly	200,000	270,000	169,000	839,000

Information on the company's overheads is as follows

Production overhead	Rs.	Rs.
	000	000
Indirect labour		
Machinery	900	
Assembly	600	
Purchasing/order processing	600	
Factory management	<u>100</u>	
		2200
Power		
Machining	400	
Assembly	<u>100</u>	
		500
Indirect materials		
Machining	200	
Assembly	200	
Purchasing	100	
Factory management	100	
		600
Depreciation		

Cont'd.....9

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Machining	600
Assembly	300
Purchasing	200
Building	400
Security	1500
Grounds maintenance	100
Total production overhead	100
	5000

At present the company uses the traditional method to compute the product cost. The machining department uses a machine hour absorption rate and the assembly department a labor hour rate.

Now the company wants to switch over to Activity Based Costing method. The information and data in the following tables may be used to determine cost drivers and calculate overheads.

Product X	Product Y	Product Z
High Volume	Medium volume	Low volume
Large batches	Medium batches	Small batches
Few purchase orders placed	Medium purchase orders placed	Many purchase orders placed
Few customer orders placed	Medium components	Many components
Few customer orders placed	Medium customer orders placed	Many customers orders placed

	Product X	Product Y	Product Z	Total
Typical batch size	2,000	600	325	
No.of production runs	25	50	50	125
No.of inspections	25	50	50	125
Purchase orders placed	25	100	200	325
Customer orders received	10	100	200	310

Prepare an ABC analysis and calculate product costs.

- Jiraram has developed a new pocket calculator to compete in the rapidly expanding home market. As a management accountant, you are consulted as to the viability of marketing this calculator.

Jiraram makes the following estimates after a great deal of research :

Cont'd.....10

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<i>Sales level (units)</i>	<i>Profit (Rs.)</i>
3,60,000	(9,00,000)
4,50,000	45,00,000
5,40,000	99,00,000

The selling price will be Rs. 150.

- a) Calculate the expected profit **if the probabilities of sales for the above sales levels are :**

<i>Sales level (units)</i>	<i>Probability</i>
3,60,000	0.2
4,50,000	0.5
5,40,000	0.3

- b) Calculate the margin of safety based on (a) above.
- c) Jiraram's pocket calculators are of two sizes, each of which varies from the other in respect of price and variable cost. The above estimates of Jiraram are the averages of the two sizes. After a discussion with you, Jiraram wants to know more of margin of safety and how to improve the margin of safety for his calculators.