National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

FINAL EXAMINATION PAPER: 2012/2013

DATE:	**MAY 2013**
SUBJECT:	**STRATEGIC MANAGEMENT ACCOUNTING:CAC 4205**
TIME ALLOWED:	**THREE & HALF (3½) HOURS**
MARKS:	**100**

INSTRUCTIONS TO CANDIDATES

1. Answer **ALL** three questions
2. Use the examination book provided
3. Use black or blue pen
4. Begin each question on a new page and
5. Submit all answer books

QUESTION 1(40 Marks)

Read the attached Case Study and answer the following questions.

(a) What was the nature of the competitive advantages held by Glaxo Wellcome? In addition, what competitive advantage did Smith Beecham hold? Were they sustainable**?** **(10)**

(b) Do cost savings in themselves represent substantive competitive advantage? **(10)**

(c) What are the key factors for success in this market? In addition, what are the implications of your answer for large and generic drug manufacturers? **(10)**

(d) What lesson, if any, on the development of sustainable competitive advantage can be drawn from the case for other companies outside pharmaceuticals? **(10)**

QUESTION 2 (30 Marks)

MBR Ltd consists of three divisions, which formerly were three independent manufacturing companies. Bader Corporation and Roach Company merged in 2009 and the merged corporation acquired Michael Company in 2010. The name of the corporation was subsequently changed to MBR Ltd, and each company became a separated division, retaining the name of the original company.

The three divisions have operated as independent entities, each having its own sales force and production facilities. Each division manager is responsible for sales, cost of operations, acquisition and financing of divisional assets, and working capital management. The corporate management of MBR evaluates the performance of the divisions and division managers based on rate of return on capital employed.

Michael Division has just been awarded a contract for a product, which uses a component manufactured by the Roach Division as well as by outside suppliers. Michael used a cost figure of $3, 80 for the component manufactured by Roach in preparing its bid for the new product, a figure supplied by Roach in response to Michael's request for the average variable cost of the component. It represents the standard variable manufacturing cost and variable marketing expense.

Roach has an active sales force that is continually soliciting new prospects, and its sales price for the component Michael needs is $6, 50. Sales of this component are expected to increase; however, the Roach management has indicated that it could supply Michael with the required quantities at the regular sales price less variable marketing expense. Michael's management has responded by offering to pay standard variable cost plus 20%.

The two divisions have been unable to agree on a transfer price. Corporate management has never established a transfer price policy because interdivisional transactions have never occurred. As a compromise, the corporate Finance Director has suggested a price equal to the standard full manufacturing cost (i.e., no marketing expense) plus a 15% markup. The two division managers have also rejected this price, because each considered it grossly unfair.

The unit cost structure for the Roach component and the three suggested prices are as follows:

Regular sales price	**$6, 50**
Standard variable manufacturing cost	$3, 20
Standard fixed manufacturing cost	1, 20
Variable marketing expense	0, 60
	$5, 00
Regular sales price less variable marketing expense ($6, 50-$0, 60)	$5, 90

Variable manufacturing cost plus 20 %($3, 20 x1, 20)	$3, 84
Standard full manufacturing cost plus 15 %($4, 40 x1, 15)	$5, 06

Required:

(a) State the effect of the three proposed prices on the Roach Division's attitude toward intracompany business**.** **(10)**

(b) Evaluate the negotiation method for setting the transfer price**.** **(10)**

(c) Specify the extent of desired MBR corporate management involvement in setting the transfer price. **(10**)

QUESTION 3 (30 Marks)

Draw a project network from the details given below:

		Duration	**Duration**	**Direct costs**	**Direct cost**
Activity	**Depends on**	**Normal(weeks)**	**Crash time(weeks)**	**Normal($)**	**Crash($)**
A	-	3	3	600	600
B	A	15	13	2000	2300
C	A	7	4	1100	2000
D	A	10	9	800	900
E	C	8	8	1300	1300
F	C	4	3	800	1000
G	F,D	5	4	750	1000

Required:

(a) Find the critical path when all activities take their normal time**.** **(14)**

(b) Given that the indirect costs amount to $600 per week, determined which activities should be crashed and by how much**?** **(13)**

(c) Is the solution optimal**?** **(3)**

END OF EXAMINATION PAPER