



© Copyright Reserved

Serial No.....

**Institute of Certified Management Accountants of Sri Lanka**  
**Strategic Level**  
**October 2017 Examination**

**Examination Date :** 4<sup>th</sup> November 2017      **Number of Pages :** 04  
**Examination Time:** 1.30 p.m. – 4.30 p.m.      **Number of Questions:** 05

**Instructions to Candidates**

1. Time allowed is **three (3) hours**.
2. Total: **100** Marks.
3. Answer **all** questions in **Part I** and any **three (3)** questions from **Part II**.
4. Candidates are allowed to use non-programmable calculators.
5. The answers should be in **English Language**.

<u>Subject</u>	<u>Subject Code</u>
<b>Strategic Management Accounting</b>	<b>(SMA / SL 1 - 401)</b>

**PART I**

Answer **all** questions

**Question No. 01 (40 Marks)**

ABC plc is a software developer provides services to local start-ups.

ABC plc has recruited 5 full time software developers to contribute by delivering software solutions to clients and each receive a salary of Rs.300,000/- per annum. There are 5 other staff members in accounts/admin and support services and they draw a total salary of Rs.1,200,000/- per year.

Estimated of ABC plc for the next financial year is as follow:

	Rs.
Office Rent	360,000
Electricity Water and Utilities	115,000
Advertising and Marketing	500,000
Travelling	930,000
Accommodation	1,800,000

ABC charges Rs.375/- per hour for all clients by recording the chargeable hours spent on each client and using a single cost rate. Cost estimates for new business is also based on the same basis.

Following table shows the data relating to the existing client base.

<b>Category</b>	<b>1</b>	<b>2</b>	<b>3</b>
Chargeable Hrs. per client	150	300	500
No. of clients	20	35	8
Distance (Km)	50	100	150
No. of visits per client	4	6	10

ABC is considering changing the single cost rate and arriving at a reasonable individual costing and pricing method.

ABC plc's policy that where a visit is made to a client and the distance to the client is more than 40 Km. the developer will travel the day before the visit and stay in local accommodation so that the maximum time is available for meeting the client the following day.

The cost of travel to the client is dependent on the number of KM travelled to visit the client.

**You are required to:**

- (a) Briefly explain term "Activity based costing (ABC)". **(05 Marks)**
- (b) Discuss two differences between traditional costing systems and Activity Based Costing (ABC). **(05 Marks)**
- (c) Prepare calculations to show the cost attributed to each client group using an activity based system. **(08 Marks)**
- (d) Critically evaluate the differences between the costs attributed using activity based costing and those attributed by the current system and advise the management. **(10 Marks)**
- (e) Briefly explain how an organization can use Michael Porters Value chain analysis for strategic cost management to assess and improve its strategic position. **(06 Marks)**
- (f) Explain the concept of Target costing and its **four (4)** basic steps. **(06 Marks)**

**(Total 40 Marks)**

End of Part I

## **Part II**

Answer any **three (3)** questions

### **Question No. 02 (20 Marks)**

- (a) Although many people use the terms social responsibility and sustainable development interchangeably and there is a close relationship between the two, they are different concepts. Explain the Relationship between social responsibility and sustainable development. **(08 Marks)**
  - (b) Name **five (5)** principles of social responsibility. **(05 Marks)**
  - (c) Explain why companies and other organizations publish sustainability reports. **(07 Marks)**
- (Total 20 Marks)**

### **Question No. 03 (20 Marks)**

- (a) Briefly explain concepts known as Price takers and Price setters. **(05 Marks)**
  - (b) Discuss advantages and disadvantages of cost plus pricing method. **(10 Marks)**
  - (c) Briefly explain different types of price discrimination. **(05 Marks)**
- (Total 20 Marks)**

**Question No. 04 (20 Marks)**

A manufacturing plant produce constant number of units every month despite the changing customer demand every month and as a result the stock levels fluctuate every month.

**You are required to:**

- (a) Identify and explain the reasons for cost changes that would result if the company changed to a Just-In-Time production method. Assume there will be no inventory at the start and end of the year. (06 Marks)
  - (b) Briefly discuss the importance of Total Quality Management to a company that operates a Just-In-Time production method. (05 Marks)
  - (c) Explains briefly the principles of Total Quality Management. (05 Marks)
  - (d) Explain the four categories of quality costs. (04 Marks)
- (Total 20 Marks)**

**Question No. 05 (20 Marks)**

- (a) Explain functions that project management software performs. (07 Marks)
- (b) Briefly explain how a work breakdown structure helps the overall planning and control of a contract / project. (08 Marks)
- (c) Briefly explain the technique “Earned value management” used in measuring project performance. (05 Marks)

**(Total 20 Marks)**

End of Part II

## Present value table

Present value of 1.00 unit of currency, that is  $(1 + r)^{-n}$  where  $r$  = interest rate;  $n$  = number of periods until payment or receipt.

Periods ( $n$ )	Interest rates ( $r$ )									
	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239
16	0.853	0.728	0.623	0.534	0.458	0.394	0.339	0.292	0.252	0.218
17	0.844	0.714	0.605	0.513	0.436	0.371	0.317	0.270	0.231	0.198
18	0.836	0.700	0.587	0.494	0.416	0.350	0.296	0.250	0.212	0.180
19	0.828	0.686	0.570	0.475	0.396	0.331	0.277	0.232	0.194	0.164
20	0.820	0.673	0.554	0.456	0.377	0.312	0.258	0.215	0.178	0.149

Periods ( $n$ )	Interest rates ( $r$ )									
	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833
2	0.812	0.797	0.783	0.769	0.756	0.743	0.731	0.718	0.706	0.694
3	0.731	0.712	0.693	0.675	0.658	0.641	0.624	0.609	0.593	0.579
4	0.659	0.636	0.613	0.592	0.572	0.552	0.534	0.516	0.499	0.482
5	0.593	0.567	0.543	0.519	0.497	0.476	0.456	0.437	0.419	0.402
6	0.535	0.507	0.480	0.456	0.432	0.410	0.390	0.370	0.352	0.335
7	0.482	0.452	0.425	0.400	0.376	0.354	0.333	0.314	0.296	0.279
8	0.434	0.404	0.376	0.351	0.327	0.305	0.285	0.266	0.249	0.233
9	0.391	0.361	0.333	0.308	0.284	0.263	0.243	0.225	0.209	0.194
10	0.352	0.322	0.295	0.270	0.247	0.227	0.208	0.191	0.176	0.162
11	0.317	0.287	0.261	0.237	0.215	0.195	0.178	0.162	0.148	0.135
12	0.286	0.257	0.231	0.208	0.187	0.168	0.152	0.137	0.124	0.112
13	0.258	0.229	0.204	0.182	0.163	0.145	0.130	0.116	0.104	0.093
14	0.232	0.205	0.181	0.160	0.141	0.125	0.111	0.099	0.088	0.078
15	0.209	0.183	0.160	0.140	0.123	0.108	0.095	0.084	0.079	0.065
16	0.188	0.163	0.141	0.123	0.107	0.093	0.081	0.071	0.062	0.054
17	0.170	0.146	0.125	0.108	0.093	0.080	0.069	0.060	0.052	0.045
18	0.153	0.130	0.111	0.095	0.081	0.069	0.059	0.051	0.044	0.038
19	0.138	0.116	0.098	0.083	0.070	0.060	0.051	0.043	0.037	0.031
20	0.124	0.104	0.087	0.073	0.061	0.051	0.043	0.037	0.031	0.026

End of Question Paper