



COLLEGE OF BUSINESS AND MANAGEMENT SCIENCES

NMAC 307: STRATEGIC MANAGEMENT ACCOUNTING

SECOND SEMESTER EXAMINATION

APRIL 2026

LECTURER: DR P KORERA

DURATION: 3 HOURS

INSTRUCTIONS

You are required to answer questions as instructed

Answer **ALL** questions

Start **each** question on a new page in your answer booklet

Credit will be awarded for logical, systematic and neat presentations

QUESTION 1 (20 Marks)

A. The GDT Co produces three products, A, B and C, all made from the same material. Until now, it has used traditional absorption costing to allocate overheads to its products. The company is now considering an activity based costing system in the hope that it will improve profitability. Information for the three products for the last year is as follows:

	<i>A</i>	<i>B</i>	<i>C</i>
Production and sales volumes (units)	15,000	12,000	18,000
Selling price per unit	\$7.50	\$12	\$13
Raw material cost per unit	\$2.40	\$3.60	\$4.80
Direct labour cost per unit	\$1.48	\$2.22	\$2.96
Machine hours per unit	0.5	0.7	0.9
Number of production runs per annum	16	12	8
Number of purchase orders per annum	24	28	42
Number of deliveries to retailers per annum	48	30	62

Using an overhead absorption rate of \$28.30 per direct labour hour, the unit costs of each product using traditional absorption costing were \$6.71 for Product A, \$10.07 for Product B and \$13.42 for Product C.

The company is considering an activity based costing system in the hope that it will improve profitability. The annual overhead costs for the last year were as follows:

	\$
Machine set up costs	26,550
Machine running costs	66,400
Procurement costs	48,000
Delivery costs	54,320

Required

- (a) Calculate the full cost per unit of each product in the last year using activity based costing. Do your calculations to two decimal places. **(10 marks)**
- (b) Explain briefly how activity based costing may help The GDT Co improve the profitability of each product. **(5 marks)**
- (c) Briefly explain the implementation problems often experienced when ABC is first introduced. **(5 marks)**

QUESTION 2 (20 Marks)

The newly appointed financial controller of a company that operates a number of private schools comes from a manufacturing background and has extensive experience with target costing and target pricing. She believes that introducing a target costing system into the company will help with the control of costs and ensure that the schools operate at a surplus of revenue over expenditure. Her chief executive officer is not convinced, believing target costing to be only really suitable in manufacturing companies.

Required

- (a) Explain the main steps involved in developing a target price and target cost for a product in a typical manufacturing company. **(10 marks)**
- (b) Explain four key characteristics that distinguish services from manufacturing. **(4 marks)**

- (c) Discuss the particular difficulties that the newly appointed financial controller may find in using target costing in a service provision entity. (6 marks)

QUESTION 3 (20 Marks)

A. A company is currently developing a system of environmental costing.

Required

- (i) Describe the key features of an environmental management system. (5 marks)
- (ii) Explain the difference between internalised environmental costs and externalised environmental impacts and state **two** examples of each. (5 marks)

B. YM Co is involved in the processing of sheet metal into products A, B and C using three processes, pressing, stretching and rolling. Like many businesses Yam faces tough price competition in what is a mature world market.

The factory has 50 production lines each of which contain the three processes: Raw material for the sheet metal is first pressed then stretched and finally rolled. The processing capacity varies for each process and the factory manager has provided the following data:

	<i>Processing time per metre in hours</i>		
	<i>Product A</i>	<i>Product B</i>	<i>Product C</i>
Pressing	0.50	0.50	0.40
Stretching	0.25	0.40	0.25
Rolling	0.40	0.25	0.25

The factory operates for 18 hours each day for five days per week. It is closed for only two weeks of the year for holidays when maintenance is carried out. On average one hour of labour is needed for each of the 225,000 hours of factory time. Labour is paid \$10 per hour.

The raw materials cost per metre is \$3.00 for product A, \$2.50 for product B and \$1.80 for product C. Other factory costs (excluding labour and raw materials) are \$18,000,000 per year. Selling prices per metre are \$70 for product A, \$60 for product B and \$27 for product C. YM carries very little inventory.

Required

- (i) Calculate the throughput accounting ratio (TPAR) for each product assuming that the bottleneck process is fully utilised. (7 marks)
- (ii) Assuming that the TPAR of product C is less than 1, suggest how YM could improve the TPAR of product C. (3 marks)

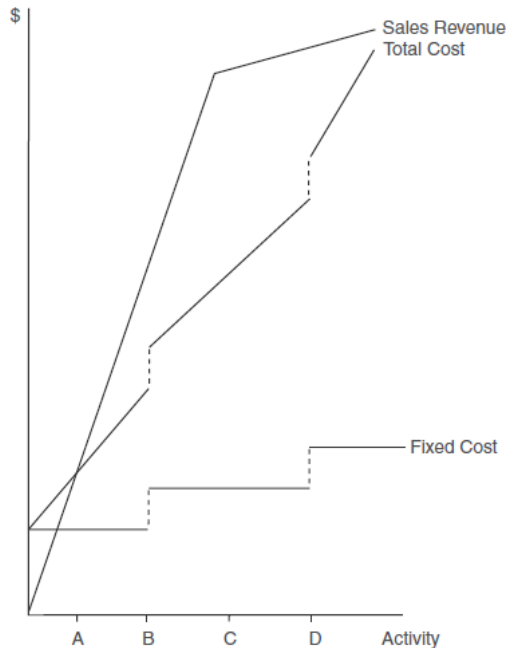
QUESTION 4 (20 Marks)

You are the Assistant Accountant of DD plc, a newly formed food manufacturer. The Board of Directors is concerned that its operational managers may not be fully aware of the importance of understanding the costs incurred by the business and the effect that this has on their operational decision making.

In addition, the operational managers need to be aware of the implications of their pricing

policy when trying to increase the volume of sales.

You are scheduled to make a presentation to the operational managers to explain to them the different costs that are incurred by the business, the results of some research that has been conducted into the implications for pricing and the importance of understanding these issues for their decision making. **The diagram has already been prepared for the presentation.**



Required

Interpret the diagram and explain how it illustrates issues that the operational managers should consider when making decisions. (**Note.** Your answer must include explanations of the Sales Revenue, Total Cost and Fixed Cost lines, and the significance of each of the activity levels labelled A, B, C, D.) **(20 marks)**

QUESTION 5 (20 Marks)

A. Brash Co is an electronics company specialising in the manufacture of home audio equipment. Historically, the company has used solely financial performance measures to assess the performance of the company as a whole. The company's Managing Director has recently heard of the 'balanced scorecard approach' and is keen to learn more.

Required

Describe the balanced scorecard approach to performance measurement. **(10 marks)**

B. You have recently been appointed as an assistant management accountant in a large company, PC Co. When you meet the production manager, you overhear him speaking to one of his staff, saying:

'Budgeting is a waste of time. I don't see the point of it. It tells us what we can't afford but it doesn't keep us from buying it. It simply makes us invent new ways of manipulating figures. If all levels of management aren't involved in the setting of the budget, they might as well not bother preparing one.'

Required

- (a) Identify and explain briefly FIVE objectives of a budgetary control system. **(5 marks)**
- (b) Discuss the concept of a participative style of budgeting in terms of the five objectives identified in part (a). **(5 marks)**

END OF EXAMINATION PAPER