KOD/NAMA KURSUS : KA 5023 MANAGEMENT ACCOUNTING AND CONTROL SYSTEM
TARIKH : 28 May 2006
MASA : 1400 - 1700
TEMPAT : 11th Floor Plaza first Nationwide (Kolej Kasturi)

ARAHAN :
1. Kertas soalan ini mengandungi LIMA (5) soalan dalam TUJUH (7) halaman bercetak.
   This paper contains FIVE(5) questions in SEVEN (7) printed pages.
2. Anda dikehendaki menjawab SEMUA soalan.
   You are required to answer ALL questions.
3. Semua jawapan hendaklah ditulisi di dalam kertas jawapan yang disediakan.
   All answers are to be written on the supplied papers.

NO. MATRIK (Matrix No.) : 
(dengan perkataan/in letters)
(dengan angka/in figure)

NO. KAD PENGENALAN :

NAMA PENSYARAH : KUMPULAN :

JANGAN BUKA KERTAS SOALAN INI SEHINGGA DIBERI ARAHAN

DO NOT OPEN THIS PAPER UNTIL YOU ARE TOLD TO OPEN
QUESTION 1 (20 MARKS : 36 MINUTES)

Majudin, the CEO of Majudin Technologies, Bhd (MTB), a biotechnology firm had recently returned from a conference on modern cost management and performance measurement methods where he was exposed to target costing, value-chain analysis, balanced scorecard, activity-based management and other ideas.

MTB is a five-year old company operating in a growing, but competitive market. It develops and produces a number of different enzymes for use by research scientists and pharmaceutical companies. Its main competitors are also small to medium sized firms just like MTB. The key to growth in this industry is the ability to develop new products in a short time. Dato Murad, the vice-president (VP) for research & development (R&D) has noticed that some of MTB's new developments did not perform well because of the delays in their introduction into the market. Dato Murad is very keen on hiring the best scientists and ensuring that they stay current in their fields because knowledge is the key competitive weapon in the biotechnology industry.

Phillips Tan, the controller of MTB had another concern. He has been noticing that the new products were not only delayed but their actual development costs were usually higher than budgeted. One of his goals was to see that the new products were profitable for the company.

Linda Lim, the production manager, had a different concern of her own. Based on her observation, the production of the new enzymes was taking longer. Her feeling was that the products spent too much time in the quality control (QC) department. Bakar Daud, the manager of the QC department argued that the new enzymes lacked the rigorous specifications that are demanded in the marketplace. Consequently, the QC department has had to perform additional tests to get to the root cause of the problems.

Majudin had heard complaints from all quarters, and decided to convene a meeting of all the department heads.

**Majudin:** Good afternoon, everyone. I am troubled that despite hiring a number of talented scientists, we are unable to compete effectively in the marketplace. Many of the recent entrants in the game seem to be beating us easily.

**Dato Murad:** Majudin, the key to our growth is rapid introduction of new products. Although my scientists are developing new enzymes in record
times, they seem to be getting held up in manufacturing and especially the QC department.

**Bakar:** Majudin, I think I can pinpoint the root cause of the problem. I agree that our scientists are developing new enzymes in record times, but they do not seem to be paying any attention to standards. It looks like my department will have to provide training to them regarding quality control matters.

**Dato Murad:** With due respect, I do not think there is more to know about QC standards. It looks like the department wants more attention and is therefore creating all this unnecessary fuss.

**Lim:** I think I will agree with Bakar that there are problems at the R&D side. My production scientists are also complaining that adequate specifications have not been developed; they have to constantly phone their R&D counterparts for clarifications.

**Dato Murad:** I do not believe that the production problems can be attributed to R&D. I have personally screened each and every scientist during the hiring process.

**Phillips:** I don’t think we will make much progress as a company if we keep pointing fingers at one another. We all must realize that all problems, regardless of their origin, finally affect the bottom-line of our company. Unless we set aside our differences and work together as a team, we will be unable to compete with our rivals. Some of our competitors follow best practices, which we must try to emulate.

**Majudin:** I agree with Phillips. We must all look for solutions. I recently attended a conference where noted speakers talked about the value-chain of a company, interrelationships between functions, and the balanced scorecard. In fact, some speakers suggested that companies must stop discussing in terms of individual functions or departments; instead they must talk in terms of processes and understand linkages among all the processes that exist in an organization. I believe there are a number of ideas that we could adopt. I will leave the conference proceedings in the library, and suggest that we all read about these different topics. How about getting together after six weeks and discussing a plan of action? Thank you and see you all after six weeks.
Required

Assume the role of a consultant preparing a report for MTB. Discuss the following aspects in your report:

a) The internal value-chain of MTB
b) The balanced scorecard. Identify the goals of the company under each perspective of the scorecard and cause-effect relationships, and develop potential measures that could be used

c) How the inter-departmental differences can be eliminated

(20 marks)

QUESTION 2 (20 MARKS : 36 MINUTES)

A. The Syarikat Brek Nasional produces disc brake pads for use on automobiles. Production is in large batches of the same size disc pad. Batch size is based on a forecast provided by the marketing department. The process requires that various raw materials be mixed and placed in molds. The molds are then placed in a hot press. The resulting product is a disc pad with rough edges. The disc pads are sent through the grinding department where the rough edges are removed.

After grinding, the pads are sent to the assembly department for final assembly. They are then placed in finished goods inventory to fill customer orders. Switching to a different size disc pad requires very little changeover time in the molding department, since it is just a matter of switching molds. To change the hot presses to accommodate a different size disc pad requires about two hours.

Required:

(a) Is Syarikat Brek Nasional using a push system of production, or a pull system of production? Explain your answer.

(b) What steps would Syarikat Brek Nasional need to take to convert their system to a just-in-time system?

(c) What would be the benefits to Syarikat Brek Nasional to convert to a just-in-time production system?

(10 marks)
B. Japanese firms have developed a variety of management tools that have allowed them to control current and future costs.

**Required:**

(a) Briefly describe at least two tools used to control current costs.

(b) Briefly describe at least three tools used to control future costs.

(10 marks)

**QUESTION 3 (20 MARKS : 36 MINUTES)**

A. One of the basic guidelines of cost allocation is that budgeted costs, not actual costs, should be allocated. Explain why.

(5 marks)

B. Helwa Institute of Business School is a private boarding school in Wilayah Persekutuan. The young women who attend are high school students from wealthy families. In spite of the high tuition rates, the school has been experiencing some financial difficulties. Costs are high for several reasons. First, the decision was made to add computers and cellular telephones to each room. Each room will receive one computer and one telephone if the room is a single. If there will be two students in a room, there will be one computer and two telephones. About half of the rooms are for a single student ("Singles") and half are for two students ("Doubles"). Second, a new soccer field and a new library were built. Third, in order to retain the highest level of faculty, the Board decided to institute large salary increases. Students register for six classes each semester unless they play a competitive sport. Students involved in the sports program register for only five courses.

The Board of Trustees knows that a tuition increase is necessary. They would like to allocate the increase to tuition, room and board, and activity fees in a fair manner.
Required:

a. Identify the costs which need to be allocated and an appropriate activity base or cost driver that could be used to allocate the new costs.

(10 marks)

b. How could the school apply the concepts of ABC costing to this situation?

(5 marks)

QUESTION 4 (20 MARKS : 36 MINUTES)

A. Mrs. Kwan is the manager of the Children's Furniture division of Bonne Terre Corporation. Every year she just misses the cut off established by the company for the awarding of bonuses. She is concerned inasmuch as she believes she is running her division effectively and her income has been increasing slowly but steadily over the years she has been with the company.

She knows that the company uses ROI as the performance measure to evaluate divisions and begins to study the formula to see what she should do to improve the ROI for her division.

Required:

Briefly discuss several ways to improve ROI. In what ways can ROI be improved; discuss briefly?

(15 marks)

B. Majutoys Sdn Bhd is a large toy manufacturer. The company has 100 highly trained and skilled employees who are involved with six major product lines, including the production of toy soldiers, dolls, etc. Each product line is manufactured in a different city and state. Dollah, the CEO of the company, has decided to make all of the production decisions for the toy lines himself, including which products to eliminate. The managers for each toy line believe he is making a mistake.
Required:
What are the pros and cons of Dollah approach? (5 marks)

QUESTION 5 (20 MARKS : 36 MINUTES)

Kedah Tube Berhad (KTB) manufactures a variety of tubes for many different customers. These pipes are different with respect to size (length, thickness and diameter), material, finish (coarse versus fine) and even color (green, red, yellow, black and navy blue). The typical manufacturing process consists of cutting the materials to desired lengths, grinding the cut pieces, forming (shaping) them, finishing the formed pipes, spray painting the finished pipes and packaging them in bundles of 25 pipes each. The pipes range from 2 feet to 6 feet in length, ½ an inch to 3 inches in thickness, and 6 to 18 inches in diameter.

KTB caters to three different types of customers: large, medium and small. The large customers buy only three times during a year in large quantities. The delivery is also made three times as per the order quantities. On the other hand, the smaller customers order many times and in smaller quantities. Besides, the smaller customers buy a greater variety of tubes (i.e., each order is likely to be different from the previous one). Consequently, KTB cannot anticipate the needs of the smaller customers.

KTB’s cost accounting system is tailored for the large customers in terms of how the data is captured. The activity cost driver rates are set based on the large customer’s use of resources extrapolated for all customers. Prices are also set based on the large customers consumption of resources. Kristen Chong Boon, the marketing manager has not been very happy about the accounting system because the actual marketing costs have turned out to be much greater than what the accounting system has been suggesting. Similarly, Neil Nathan, the operations manager has also been troubled by the cost numbers. Both Chong Boon and Nathan decided to meet with the controller Julie Hashim, to discuss their concerns.

Hashim: Kristen and Neil, in my office together? I’m surprised!

Nathan: You shouldn’t be, Julie. Didn’t you guys tell us that we should all work together as a team? I have stopped fighting with my colleagues in marketing.
Chong Boon: Let's just say that we are beginning to behave like reasonable adults.

Hashim: Isn't it nice to work as a team? However, it looks like we have a serious problem given that the two of you have come to my office together. Am I under attack?

Nathan: No attacks, no blame. We have a problem and we don't quite know where and how to begin.

Chong Boon: Both Neil and I are getting messages that conflict with our wisdom regarding our individual functions (or processes, as we should say these days). It looks like our costing system is designed to handle the big guys (I mean our large customers) but does not estimate the marketing and sales related costs for the smaller customers. Consequently, I am unable to determine which customers are profitable and which are not. I would love it if our costing system could provide finer information.

Nathan: Added to that, Julie, is the fact that these smaller customers seem to be upsetting my people too. There is something about these small customers' orders that throw my people off guard. They would love it if we got rid of all our small customers and take one or two more big guys. I am sure that would make Kristen's life easy too.

Chong Boon: You are right, Neil. It would make my life easier but I do not know if I want to make that conclusion before I can better assess the situation.

Hashim: Let me see what I can do. I will also talk to a couple of my old buddies who are top CMAs and well regarded for their knowledge in cost management.

Required:

Assume the role of one of the top, well-regarded CMAs. Identify the crucial issues in the case and address the problem. What can be done? (20 marks)

THE END