

## Model Test

Course	Subject	Test Type
ICWAI	Management Accounting- Performance Management	Quiz

A. General Principles of Management, Management of change, pattern of Management.

### 1. Fill in the Blanks:

1. Management is the..... and .....organ of any and all organizations.
2. Management has to encompass the .....
3. Authority may be.....but the responsibility is .....
4. The principle of Authority postulates that responsibility of higher authority for the acts of sub-ordinate is .....
5. The clear line of formal authority running from top to bottom is .....
6. Responsibility cannot be .....
7. Management's concern to-day encompasses its .....over everything affecting performance of institute and it's .....
8. Name and six business functions in the value chain in their sequential order.
9. CF and CI refers to ..... and .....
10. The.....approach helps manager choose among alternative accounting system (Cost benefit) Business of performance measurement and performance development e.g. Financial (ROI, RI, EPS, NPV, etc.,) and Non-financial e.g. Balance score card.

### Answers:

1. Specific, Distinguishing, 2. Entire process, 3. Delegated, created, 4. Absolute, 5. Scalar Principle, 6. Sub delegated, 7. Responsibility results, 8. 1) R & D, 2) Design of products, service or process, 3) Production 4) marketing 5) Distribution 6). Customer service, 9. Customer focus, continuous improvement, 10. Cost benefit.

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### B. PERFORMANCE APPRAISAL IN PUBLIC SECTOR ENTERPRISES

#### 1. Indicate whether each of the following statements is True or False.

- When calculating residual income (RI) for a segment, the income and investment  
i. **Definitions are:** Revenue controlled by Manager; and assets directly used by and identified with the segment.
- To evaluate the earning power of an entire company, ROI should be defined as follows:  
i. **ROI = Net Income/Investments**
- No relationship exists between residual income (RI) and return on investment (ROI),
- To evaluate the performance of a Manager of a segment, the ROI calculation should be the same as for evaluating the income contribution of a segment
- Earnings per share of ordinary shares is a measure of profit per share distributed to ordinary shareholder.

#### Answers:

- F
- T
- F
- F
- F

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### 2. Select the best answer for each of the following Questions:

- a. The Investment base used when determining the ROI calculation could be which of the following?
  - i. Current Replacement
  - ii. Original Cost
  - iii. Original cost less accumulated depreciation
  - iv. Any of the above.
  
- b. Which of the following actions would increase ROI?
  - i. Reduce operating expenses, with no effect on sales or assets.
  - ii. Increase investment in assets, with no change in income
  - iii. Increase sales, with no change in income or assets
  - iv. None of the above.
  
- c. Calculate ROI using the expanded form (Margin times turnover) from the following data:
 

Sales	:	Rs.10 Lakhs
Investments	:	Rs. 5 Lakhs
Income	:	Rs.0.5 lakhs

  - a. 20%
  - b. 10%
  - c. 15%
  - d. None of the above

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- d. Calculate the ROI and RI for each of the product kgroup and determine if a product should be dropped based on RI

	(Rs.in lakhs)		
	Product 1	Product 2	Product 3
Income	2, 00,000	10, 00,000	5, 00,000
Investment	20, 00,000	50, 00,000	2,00,000
ROI	?	?	?
Desired minimum ROI (10%)		200,000	500,000

ROI	(a) 10%	20%	20%	Dropping Product 1
	(b) 20%	20%	20%	No product to be dropped
	(c) 10%	20%	25%	Dropping Product 1
	(d) 20%	20%	25%	No product to be dropped
RI	(a) 0	5, 00,000	2, 00,000	
	(b) 2, 00,000	5,00,000	2,00,000	
	(c) 0	5,00,000	3,00,000	
	(d) 2,00,000	5,00,000	3,00,000	

- e. In using ROI in evaluating the performance of a manager, it is first necessary to choose a valuation base. Which of the following statement is true?
- Original cost less accumulated depreciation is most desirable because it allows flexibility in choosing a different method for each segment.
  - Current replacement cost is the cost of replacing the present assets with similar assets which are in the same condition as those now in use.
  - Original cost is undesirable, because the book value of the assets decreases as depreciation is accumulated.
  - Both (b) and (c)

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- f. Evaluation by return on investment (ROI)
- a) Facilitates performance comparisons between segments of different size.
  - b) Is appropriate for expense centers.
  - c) Is appropriate for profit centers
  - d) Requires an investment base made up only of controllable items
- g. The EPS is directly useful for
- i. Determining the market value of the enterprise
  - ii. Identifying the problems
  - iii. Measuring the liquidity position of the enterprise.
  - iv. Measuring accomplishments
- h. The market value of shares of a company depends on :
- i. Retained earnings
  - ii. Dividends
  - iii. EPS
  - iv. All of the above
- i. The following data are used for question
- |       |      |      |      |      |
|-------|------|------|------|------|
| 0     | 1    | 2    | 3    | 4    |
| -5000 | 2500 | 2000 | 2000 | 1500 |
- Which is the NPV of the project?
- a. 6204
  - b. 1204

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- c 3896
- d 5000

- j. The net present value of a proposed project represent the :
- a. Cash inflows les the present value of the cash outflows
  - b. Cash inflows less the original investment
  - c. Present value of the cash inflows plus the present value of the original investment less the original
  - d. Present value of the cash inflows less the present value of the cash outflows

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**Answers:**  
 1. d, 2. a, 3. b ( $0.5\% \times 10/5 = 0.05\% = 10\%$ ), 4. Based on RI product can be dropped. However it is earning the minimum ROI but barely, then product 1 not to be dropped. 5. b, 6. a, 7. a, 8. C, 9. b, 10. d.

#### A. BALANCE SCORE CARD

##### 1. Fill up the Blanks:

1. Balance score card concept was developed by ..... and .....
2. Customer's Order Received (A)      Production Started (B)      Goods Dispatched (C)      + Internal movement time (D)  
 + Waiting time (E)      Process time (F)      + Inspection Time (G)  
 + Waiting in queue for dispatch (H)  
 i. Throughput time  
 ii. Delivery cycle time  
 iii. Value added time  
 iv. Non-value added time
3. The balance score card translates an organization's ..... and ..... into a Comprehensive set of ..... that provides the frame work for a measurement ..... and management system.
4. The four linked perspectives measured by balance score card are ..... and .....
5. Name the six steps to introduce and operate a balance score card approach.
  1. Establishing the constituents of the balance scorecard.

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2. Identify the performance drivers for each category
3. Determine how performance in each category to be measured
4. Communicate to all the employees what the balance scorecard is, why it is important and how it will work and the part to be played by them.
5. Developing policies, procedures and processes
6. Providing training to everyone on the operation of the scorecard

### Answers:

1. Robert Kaplan and David Norton, 2. F,G, B, CDE, 3. Mission, Strategy, Performance measures, strategic, 4. Financial, Customer, Internal Business Process, Learning and Growth, 5.

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### D. PERFORMANCE APPRAISAL OF PUBLIC ENTERPRISES

#### 1. State Whether True or False.

1. All enterprises which are privately owned or operated are PSE's.
2. Public Service is main and profit maximization is the Secondary objective of PSE's.
3. The acute shortage of capital and entrepreneurial skill called for a rethinking by Government to form PSE's.
4. The crux of control is the non measurement of objectives.
5. PSE's derive power from parliament and are responsible to parliament.
6. Privately owned organization follow single entry system of accounting where as publicly owned follow double entry system of accounting.
7. "Value of money" means providing service which is not economical effective and efficient.
8. Conspicuous absence of continuing discipline is the cause of failure in performance of PSE's.
9. Opportunity cost is not the value in the next use.
10. Control over spending is a measure of performance.

#### Answers:

1. F, 2. T, 3. T, 4. F, 5. T, 6. F, 7. F, 8. T, 9. F, 10. T

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