Chapter 03: Section 3

Practice Question 83:

You are a Management Accountant at Mango Holdings. The company has successfully implemented a new Group-wide ERP system, providing standardised metrics across its five divisions: Agriculture, Textiles, Energy, Seafood, and Logistics. Your initial analysis reveals significant performance disparities.

The Textiles division demonstrates excellent inventory turnover, while the Seafood division struggles with a long working capital cycle. The Group CFO, Ravindra Jayawardena, sees an opportunity to use these internal insights.

He asks you: **How can the Management Accountant use internal benchmarking to identify and transfer best practices between Mango's diverse divisions to improve overall group performance?**

Your task is to develop a structured approach to compare divisional performance and identify transferable efficiencies.

Chapter 04

Practice Question 84:

As the Human Resources Business Partner at Mango Holdings, you face an urgent strategic challenge. The board has expressed serious concerns about succession planning for C-suite positions, noting that most senior managers have spent their entire careers within functional silos. The Head of Sales manages sales across all divisions but has never run a complete business unit. The Head of Operations excels at process optimisation but lacks commercial experience.

The CEO recognises that the company's five divisional heads represent ideal candidates for future Group CEO or COO roles, yet they require broader exposure beyond their current domains.

How can the board of Mango Holdings use its divisional structure not just for operational control, but as a strategic engine for developing its next generation of senior corporate leaders?

Your task is to create a proposal that transforms the divisional structure into the cornerstone of a formal leadership development programme.

Practice Question 85:

You are the Financial Planning & Analysis (FP&A) Manager at Mango Holdings, preparing for the annual strategic planning retreat. The board faces a difficult capital allocation decision between competing divisional proposals. The head of the Renewable Energy division requests a large capital injection to build a new wind farm, promising high long-term growth potential.

The head of the Agriculture division seeks funds to modernise tea processing facilities, arguing for the stability and consistent cash flow his division provides. With limited capital available, the board needs a systematic framework for these decisions.

How should the corporate leadership of Mango Holdings use its divisional structure to make rational, performance-based decisions about which business units to invest in for growth, which to maintain for cash flow, and which to potentially divest?

Your task is to prepare an analysis that provides a clear, objective basis for this allocation decision.

Practice Question 86:

As the Plant Controller at BlueGem Textiles Pvt Ltd, you are reviewing the Katunayake facility's dyeing and finishing department. The department manager consistently meets his static cost budget for dyes, chemicals, labour, and energy. However, this apparent success masks serious operational problems.

The sales department reports increasing fabric defects, particularly colour inconsistencies, leading to customer returns. Meanwhile, the Chief Sustainability Officer has identified that water and energy consumption per metre of fabric exceeds industry benchmarks by 10%.

How can BlueGem's senior management evaluate the performance of its dyeing department in a way that encourages not just cost control, but also high quality, resource efficiency, and support for the company's sustainability goals?

Your task is to redesign the performance evaluation framework to address these competing priorities.

Practice Question 87:

As the Divisional Controller for the Textiles Division at Mango Holdings, you are responsible for performance reporting. The head of your division is evaluated based on net profit. He argues that his reported profit is unfairly reduced by a large corporate overhead charge of Rs. 250 million for head office services like HR and finance. He cannot control these costs. He states this allocation demotivates him and obscures his true performance in managing the textile business's revenues and direct costs.

The CFO has tasked you with addressing this issue, asking: **How should the CFO of Mango Holdings structure the performance reporting for the Textiles division to accurately reflect the divisional manager's effectiveness in managing profitability, while fairly accounting for corporate-level costs outside of his control?**

You must design a new performance report that provides a fairer assessment of managerial effectiveness.

Practice Question 88:

The monthly cost report for the Weaving Department at BlueGem Textiles shows the following expenses. The department manager, Ms. Perera, has authority over staff scheduling (overtime), raw material usage, and machine maintenance schedules. The factory rent is based on a 10-year corporate lease, and head office costs are allocated by the finance department based on floor space. A sudden global shortage of a key raw material (cotton yarn) caused a price spike, leading to an unavoidable increase in material costs of Rs. 300,000.

Prepare a performance report for Ms. Perera that evaluates her based on the controllability principle.

Given Information:

- Direct Labour (including overtime): Rs. 900,000
- Raw Material Usage (at standard price): Rs. 1,500,000
- Material Price Variance (uncontrollable): Rs. 300,000 Adverse
- Machine Maintenance: Rs. 200,000
- Factory Rent (Corporate Lease): Rs. 500,000
- Allocated Head Office Costs: Rs. 450,000

Practice Question 89:

Palmnest Foods' Galle distribution centre is a profit centre. The following data is available for the year:

- Sales Revenue: Rs. 15,000,000
- Variable Costs (Cost of Goods Sold, Sales Commissions): Rs. 9,000,000
- Controllable Fixed Costs (Branch Staff Salaries, Local Advertising): Rs. 2,500,000
- Allocated Corporate Costs (Head Office Admin, Corporate IT): Rs. 1,200,000

Prepare a segmented income statement to evaluate the performance of the distribution centre manager.

Practice Question 90:

Mango Holdings' Palmnest Foods Division is an investment centre. The following financial data is available for the year:

- Controllable Profit (After-Tax Operating Profit): Rs. 25,000,000
- Divisional Investment Base (Capital Employed): Rs. 200,000,000
- Group's Minimum Required Rate of Return: 10%
- Weighted Average Cost of Capital (WACC): 10%

Calculate the Return on Investment (ROI), Residual Income (RI), and Economic Value Added (EVA) for the division.

Practice Question 91:

You are a Corporate Financial Analyst at Mango Holdings, a Sri Lankan conglomerate with five distinct divisions spanning Agriculture, Textiles & Apparel, Renewable Energy, Seafood, and Logistics. The Textiles division manager has submitted an investment proposal for your review. The division currently achieves an impressive Return on Investment (ROI) of 25%, calculated from its operating income of Rs. 1,650m and average assets of Rs. 6,600m. The proposal involves investing Rs. 1,100m in new water-reuse dyeing technology that would generate an additional Rs. 242m in annual operating income.

Mango Holdings maintains a group-wide policy requiring a minimum 15% return on all new investments.

How might a strict focus on maximising divisional ROI lead the manager of Mango's highly profitable Textiles division to make a decision that harms the overall value of Mango Holdings?

Your task is to analyse this investment opportunity and demonstrate the potential conflict between divisional performance metrics and corporate value creation.

Practice Question 92:

As a Corporate Financial Analyst at Mango Holdings, you are reviewing an investment decision that has raised concerns at the board level. The manager of the Textiles division recently rejected a new project proposal despite its apparent profitability.

The project promises a Return on Investment (ROI) of 22%, which exceeds the company's required rate of return of 15%. However, the manager declined the investment because accepting it would dilute the division's current ROI from 25% to approximately 24.6%.

This decision protects the division's performance metric but potentially sacrifices value creation for the company. Senior management suspects this represents a case of sub-optimisation and has asked you to re-evaluate the situation.

How would adopting Residual Income (RI) as the primary performance metric for Mango's divisions change the investment decision of the Textiles division manager?

Your task is to analyse the project using RI and determine whether the investment decision should be reversed.

Practice Question 93:

Scenario: Two divisions of Mango Holdings, BlueGem Textiles and Palmnest Foods, both achieved an ROI of 18%. Their financial data is as follows:

- **BlueGem Textiles:** Sales: Rs. 200m; Operating Income: Rs. 36m; Average Assets: Rs. 200m.
- **Palmnest Foods:** Sales: Rs. 900m; Operating Income: Rs. 27m; Average Assets: Rs. 150m.

Use DuPont analysis to break down the ROI and explain the different strategies of the two divisions.

Practice Question 94:

Scenario: Mango Holdings has two investment centres, the Oceanleaf Exports Division and the Palmnest Foods Division. Their performance data is as follows:

- **Oceanleaf Exports Division (Large):** Average Assets: Rs. 100m; Operating Income: Rs. 20m.
- **Palmnest Foods Division (Small):** Average Assets: Rs. 10m; Operating Income: Rs. 2.5m.

The group's required rate of return is 15%. Compare the divisions using both RI and ROI.

Practice Question 95:

Scenario: Mango Holdings' financing structure consists of 60% equity and 40% debt. The cost of equity (the return shareholders expect) is 15%. The pre-tax cost of debt is 8%, and the group's tax rate is 30%. Calculate the WACC.

Practice Question 96:

Scenario: Mango Holdings' Trident Logic Division reports the following figures:

- Operating Income: Rs. 80 million
- Tax Rate: 25%
- Average Operating Assets (Book Value): Rs. 400 million
- Required Rate of Return (for RI): 15%
- WACC (for EVA): 12%

During the year, the division spent Rs. 20 million on Research & Development (R&D) for new software products, which was fully expensed in the operating income figure. For EVA calculation, Mango Holdings' policy is to capitalise R&D and amortise it over 5 years. This is the first year of such expenditure.

Calculate and compare the division's performance using both RI and EVA.

Practice Question 97:

You are the Group Financial Controller at Mango Holdings, preparing for the year-end performance review. The company operates a diverse portfolio including capital-intensive divisions like Renewable Energy and those with older, established assets such as Agriculture.

The Agriculture division reports a Return on Investment (ROI) of 20%, while the newer Renewable Energy division reports an ROI of 15%. The head of the Energy division argues this comparison is unfair. The Agriculture division's assets consist of old tea and rubber estates that are almost fully depreciated, resulting in a low asset base.

In contrast, the Energy division's assets are new wind turbines and solar panels with a high book value. Furthermore, the corporate head office allocates Rs. 150 million in ERP implementation costs to the divisions based on revenue.

The CFO needs your analysis on this critical question: **What are the key challenges the CFO of Mango Holdings would face in using ROI to compare the performance of the Agriculture division and the Renewable Energy division, and what adjustments could make the comparison fairer?**

You must prepare a memo to the CFO explaining these issues.