Ph.D. Qualifying Exam- Managerial Accounting
March 16, 2005

PART 2

2-1: (25%)

A rich of employee attitudes and behavior affect the organization's and might be induced or deterred by the motivation system. Managers' jobs may be even more multifaceted. They have to develop organizational structures, implement plans to carry out routine operations, and devise responses to unforeseen opportunities and difficulties. How intelligently and honestly they plan and allocate capital are important to organizational success. Effective compensation along with many dimensions may motive managers to make capital budgeting in the ways that serve the organization's interests. Please discuss the relationship between capital budgeting and managerial compensation based on incentive and retention perspectives.

2-2: (25%)

Let W be the wage Max company has to pay employee Jack, and let $\overline{w}$ be the wage Jack could get if he look for another job in the same market. The wage $\overline{w}$ is assumed of be discussed to consider the cost of searching for a new job. Let h be the amount that Jack could got by cheating on the job regardless of whether he is detected. The gain might take the form of income from bribes, increased leisure from working shorter hours than agrees, material gain. Let N be the multiplier to express the long term value if this relationship, adjusting for both interest and the number of periods during which Jack is employed by the firm if not caught cheating. Max brought in NY firm to audit and inspect local practices, being on the lookout for bribery and favoritism. Let M(p) is the monitoring cost incurred in every accounting period when the probability of detection is p. IF the Max wants to deter cheating, it can

minimize it total cost in each period by choosing its wage and monitoring.

You are required to establish a model presentation of how monitoring and wage incentives are used together to provide incentive. Compute the best optimal solution of wage and monitoring policy. Describe how the solution depends on the multiplier N and the probability of detection p. What the implication the results provide you?