

Department of Accounting
College of Commerce
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Ph.D. Qualifying Exam- Managerial Accounting
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PART 2

1. Literature claims that activity based costing could obtain more cost information by using separate cost drivers for different activities and help managers to make more correct decision. In both papers of Banker & Potter (1993) and Mishra & Vaysman (2001), they discuss the information value of ABC in different frameworks. What are the basic assumptions of ABC within their models? (10%) Please compare the different effects of ABC in their models and explain the value of ABC. (10%)
(Please do not make a copy of models in these two papers which will lead to a bad grade in this exam. **According to these two papers, expressing your thoughts in logical thinking is recommended.**)

Paper:

Rajiv D. Banker and Gordon Potter. 1993. Economic implications of Single cost driver systems. *Journal of Management Accounting Research* 5:15-32.

Mishra, B. and Vaysman I. 2001. Cost-System Choice and Incentives-Traditional vs. Activity-Based Costing, *Journal of Accounting Research*, Vol. 39, No. 3, 619-641.

2. What is the meaning of goal congruence between employees and the firm? Please cite an example to point out the goal incongruence occurring between employees and the firm in the long run. In this situation, which device can be used to reduce the side effect of goal incongruence? And why? Please expressing your opinion. (10%)

3. Considering a two-period contracting problem between a risk-neutral principle and a risk-averse agent (manager). In each period t , the manager chooses an unobservable and personally costly effort a_t which contributes to the firm's current operating cash flow. The observed cash flows in the two periods are:

$$C1 = r \cdot a1 + e1$$

$$\text{and } C2 = d \cdot a1 + r \cdot a2 + e2$$

with the random variables $e1$ and $e2$ representing uncertain events that are beyond the

manager's control. The principle relies on the realized cash flow in each period. However, C_1 & C_2 can not be correctly measured. The other measure p_t , $t=1,2$, can be measured and assessed for C_t , and can be the basis of explicit contract. Compensation contract for the manager consist of a base salary s and Bonus $b \cdot C_t$, $c \cdot p_t$. The firm offers the manager compensation contract (s, b, c) . Second, the worker either accepts the contract or rejects it in favor of an alternative employment opportunity with payoff w_t . The manager payoff from choosing an action with cost $c(a_t)$ and receiving total compensation I_t is $I_t - c(a_t)$. We assume that $c(a_t) = \lambda a_t^2$. Please

answer the following question:

1.) Which condition will the manager choose to work for the firm with compensation contract (s, b, c) in? What is the manager's best action (a_t) in this condition? (10%)
2.) To maximize the profit of firm, the firm how to choose the measure weight of (b, c) ? (10%)

(The key for getting points: Please develop your answer on the basis of the information provided by this problem given in this exam.)