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Serial No.....

Institute of Certified Management Accountants of Sri Lanka
Strategic Level
May 2018 Examination

Examination Date : 19th May 2018 **Number of Pages :** 05
Examination Time: 9.30 a.m. – 12.30 p.m. **Number of Questions:** 05

Instructions to Candidates

1. Time allowed is **three (3) hours**.
2. Total: **100** Marks.
3. Answer **all** questions in **Part I** and any **three (3)** questions from **Part II**.
4. Candidates are allowed to use non-programmable calculators.
5. The answers should be in **English Language**.

| Subject | Subject Code |
|--|---------------------------|
| Strategic Management Accounting | (SMA / SL 1 - 401) |

PART I

Answer **all** questions

Question No. 01 (40 Marks)

Corporate Trainers (Pvt) Limited (CT) is a training institute in Colombo. CT was formed in 2010 by its two shareholders Nuwan and Anil who are now the directors. The first branch of CT was opened in Colombo.

Company Profile

Nuwan & Anil previously were experienced corporate CEO's in leading commercial organizations in Negombo. Initially they used their savings and mortgaged their properties to finance CT. They took an active role in carrying out training programs, supervising activities while advertising their previous professional experience. The Negombo center prospered over the past years and now it has about 50 corporate clients. The average rate CT charges from its clients for a day program is Rs.100,000/-. The success of the business was due to a number of factors. First, it is the only such institute in Negombo, second, the center received the personal day -to -day involvement of the owners, both of whom have a good reputation; and third, its staff, who are paid above the industry average, have a good knowledge on corporate training needs. In order to expand further, CT opened a second Center in Kandy.

Industry Performance and Information

Corporate training sector has experienced a significant increase in demand in Sri Lanka especially in areas outside the Western Province with annual revenue growth over 15% in the recent years. Currently, it is estimated that only 10% of the Sri Lankan organizations obtain services from professional training institutes. This is highly concentrated with listed companies who can afford to carryout continuous series of programs. On the supply side, there are several major training institutes operate in Negombo. These institutes while charging high fees tend to have the best trainers in town. There are also many small and part time trainers as well. A recent market survey suggests that there is still an undersupply with a potential to increase the percentage from 10% to 20% with categorized specialized training for top senior managers at high rates or low rates for junior managers and executives.

ABC (Pvt) Ltd a rival, medium-sized company, has announced that they are opening a new training institute in Negombo in 6 months' time. The company will use the most experienced veteran trainers in contrast to CT. The company also announced that it will offer discounted rates for the first 6 months.

Kandy center's performance is not up to the expected level from the start of its operations. Number of companies registered is growing at a slow pace. Kandy branch operations are more focused on improving the quality of training but not on marketing and expanding the clientele. Once issue faced by Kandy center is that finding qualified trainers in Kandy and to send trainers from Colombo is also very costly. Whereas its' convenient and cost effective to send trainers from Colombo to Negombo.

A Multinational manufacturing company Fines International has approached CT to negotiate for a special discounted rate for its employees. Fines have offered to sign up a contract for next 3 years to motivate their staff (over 1,000 employees) and increase productivity as they are experiencing high labour turnover last few years. They have proposed a rate of 25,000 per day.

Following table shows financials for the last financial year in Rs.'000.

| Centres | Negombo | Kandy | Total |
|----------------------------|---------------------|-----------------------|---------------------|
| Fees | 15,540 | 3,450 | 18,990 |
| Capacity Utilization | 85% | 25% | |
| Less: Trainer Salaries | <u>10,878</u> | <u>3,105</u> | <u>13,983</u> |
| Net Income | 4,662 | 345 | 5,007 |
| Less: Overheads | 1,536 | 1,300 | 2,836 |
| Other Expenses | <u>256</u> | <u>156</u> | <u>412</u> |
| Net Profit / (Loss) | <u><u>2,870</u></u> | <u><u>(1,111)</u></u> | <u><u>1,759</u></u> |

You are required to:

- Explain** how strategic Management Accounting can be used to improve the situation with CT (pvt) limited. **(10 Marks)**
- Evaluate** the strategic position of each of CT's two fitness centres according to their life cycle and discuss how the pricing should be strategized. **(10 Marks)**
- Write a report to the Board of Directors, as the Chief Operating Officer, advising on the two strategic issues. You are required to address the following points in your report:
Issue 1: Poor performance of Kandy Branch, The relationships between cost, revenue, and profitability. **(10 Marks)**

Issue 2: Imminent competition in Negombo Competitor analysis and competitive strategy Long-term viability of the institute. **(10 Marks)**

(Total 40 Marks)

End of Part I

Part II

Answer any **three (3)** questions

Question No. 02 (20 Marks)

- (a) Future Management Accountants will have multidisciplinary roles in steering companies through turbulent times to greater heights, forever redefining the discipline of Management Accounting. The multidisciplinary role to be played by the future management accountant is likely to be based on 12 postulates (suggestions).

You are required to **identify six (6) such postulates** and **brief explain** the changes Management Accounting as a discipline needs to embrace and evolve with. **(12 Marks)**

- (b) Product Lifecycle Management (PLM) is generally defined as a strategic business approach for the effective management and use of corporate intellectual capital.

You are required to **explain** how an organization can use PLM as an integrated, information driven strategy that speeds the innovation and launch of successful products. **(08 Marks)**

(Total 20 Marks)

Question No. 03 (20 Marks)

- (a) Exco Engineering a manufacturing company has appointed you as the company's Management Accountant. The Company is currently finding difficult to supply its manufactured goods in line with demand as there are quality failures.

The Production team believes that higher expenditure on Compliance costs is necessary to avoid the costs of Non-compliance.

You are required to prepare a report addressed to the Board of Directors explaining the relationship between Compliance and Non-Compliance costs in the context of Total Quality Management (TQM) with the emphasis of principles of TQM and different categories of quality costs. **(10 Marks)**

- (b) The Board of Directors of KATA International has announced that there is a need for a business process re-engineering exercise to be carried out with the intention of modernizing the business. The intention is to streamline the business model as much as possible and to increase the profitability of the company.

You are required to:

- (i) Briefly explain the principles of business process re-engineering (BPR). **(06 Marks)**
- (ii) Explain the stages involved in implementing a BPR exercise that might be undertaken by the company. **(04 Marks)**

(Total 20 Marks)

Question No. 04 (20 Marks)

The sustainability of an individual organization may, or may not, be compatible with the sustainability of society as a whole, which is attained by addressing social, economic and environmental aspects in an integrated manner. Sustainable consumption, sustainable resource use and sustainable livelihoods are relevant to all organizations and relate to the sustainability of society as a whole.

- (a) Name at least **six (6) principles** of social responsibility. **(06 Marks)**
- (b) Becart is an international organization manufactures construction chemicals located in an industrial zone close to a residential area. It has recently come under pressure from environmental groups and residents that have protested that it is not socially responsible to operate a manufacturing plant which can emit harmful chemicals to surrounding waterways.

The Chief Executive of the company has argued that he is not concerned about these protests, as far as he is concerned, the company always acts ethically, it has the agreement and has obtained prior approvals from the national government in the country in which the company operates.

You are required to:

- (i) Briefly explain the differences between Business Ethics and Corporate Social Responsibility (CSR). **(06 Marks)**
- (ii) Discuss the CSR issues relating to the business and how the company might improve its CSR position. **(08 Marks)**
- (Total 20 Marks)**

Question No. 05 (20 Marks)

SA8000 is a global social accountability standard for decent working conditions, developed and overseen by **Social Accountability International (SAI)**. SAI offers training in SA8000 and other workplace standards to managers, workers and auditors. It contracts with a global accreditation agency, **Social Accountability Accreditation Services (SAAS)** that licences and oversees auditing organisations to award certification to employers that comply with SA8000.

Briefly explain at least **5 areas** of accountability covered under SA 8000 global social accountability standard.

(Total 20 Marks)
End of Part II

Present value table

Present value of 1.00 unit of currency, that is $(1 + r)^{-n}$ where r = interest rate; n = number of periods until payment or receipt.

| Periods (n) | Interest rates (r) | | | | | | | | | |
|--------------------|------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 1% | 2% | 3% | 4% | 5% | 6% | 7% | 8% | 9% | 10% |
| 1 | 0.990 | 0.980 | 0.971 | 0.962 | 0.952 | 0.943 | 0.935 | 0.926 | 0.917 | 0.909 |
| 2 | 0.980 | 0.961 | 0.943 | 0.925 | 0.907 | 0.890 | 0.873 | 0.857 | 0.842 | 0.826 |
| 3 | 0.971 | 0.942 | 0.915 | 0.889 | 0.864 | 0.840 | 0.816 | 0.794 | 0.772 | 0.751 |
| 4 | 0.961 | 0.924 | 0.888 | 0.855 | 0.823 | 0.792 | 0.763 | 0.735 | 0.708 | 0.683 |
| 5 | 0.951 | 0.906 | 0.863 | 0.822 | 0.784 | 0.747 | 0.713 | 0.681 | 0.650 | 0.621 |
| 6 | 0.942 | 0.888 | 0.837 | 0.790 | 0.746 | 0.705 | 0.666 | 0.630 | 0.596 | 0.564 |
| 7 | 0.933 | 0.871 | 0.813 | 0.760 | 0.711 | 0.665 | 0.623 | 0.583 | 0.547 | 0.513 |
| 8 | 0.923 | 0.853 | 0.789 | 0.731 | 0.677 | 0.627 | 0.582 | 0.540 | 0.502 | 0.467 |
| 9 | 0.914 | 0.837 | 0.766 | 0.703 | 0.645 | 0.592 | 0.544 | 0.500 | 0.460 | 0.424 |
| 10 | 0.905 | 0.820 | 0.744 | 0.676 | 0.614 | 0.558 | 0.508 | 0.463 | 0.422 | 0.386 |
| 11 | 0.896 | 0.804 | 0.722 | 0.650 | 0.585 | 0.527 | 0.475 | 0.429 | 0.388 | 0.350 |
| 12 | 0.887 | 0.788 | 0.701 | 0.625 | 0.557 | 0.497 | 0.444 | 0.397 | 0.356 | 0.319 |
| 13 | 0.879 | 0.773 | 0.681 | 0.601 | 0.530 | 0.469 | 0.415 | 0.368 | 0.326 | 0.290 |
| 14 | 0.870 | 0.758 | 0.661 | 0.577 | 0.505 | 0.442 | 0.388 | 0.340 | 0.299 | 0.263 |
| 15 | 0.861 | 0.743 | 0.642 | 0.555 | 0.481 | 0.417 | 0.362 | 0.315 | 0.275 | 0.239 |
| 16 | 0.853 | 0.728 | 0.623 | 0.534 | 0.458 | 0.394 | 0.339 | 0.292 | 0.252 | 0.218 |
| 17 | 0.844 | 0.714 | 0.605 | 0.513 | 0.436 | 0.371 | 0.317 | 0.270 | 0.231 | 0.198 |
| 18 | 0.836 | 0.700 | 0.587 | 0.494 | 0.416 | 0.350 | 0.296 | 0.250 | 0.212 | 0.180 |
| 19 | 0.828 | 0.686 | 0.570 | 0.475 | 0.396 | 0.331 | 0.277 | 0.232 | 0.194 | 0.164 |
| 20 | 0.820 | 0.673 | 0.554 | 0.456 | 0.377 | 0.312 | 0.258 | 0.215 | 0.178 | 0.149 |

| Periods (n) | Interest rates (r) | | | | | | | | | |
|--------------------|------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 11% | 12% | 13% | 14% | 15% | 16% | 17% | 18% | 19% | 20% |
| 1 | 0.901 | 0.893 | 0.885 | 0.877 | 0.870 | 0.862 | 0.855 | 0.847 | 0.840 | 0.833 |
| 2 | 0.812 | 0.797 | 0.783 | 0.769 | 0.756 | 0.743 | 0.731 | 0.718 | 0.706 | 0.694 |
| 3 | 0.731 | 0.712 | 0.693 | 0.675 | 0.658 | 0.641 | 0.624 | 0.609 | 0.593 | 0.579 |
| 4 | 0.659 | 0.636 | 0.613 | 0.592 | 0.572 | 0.552 | 0.534 | 0.516 | 0.499 | 0.482 |
| 5 | 0.593 | 0.567 | 0.543 | 0.519 | 0.497 | 0.476 | 0.456 | 0.437 | 0.419 | 0.402 |
| 6 | 0.535 | 0.507 | 0.480 | 0.456 | 0.432 | 0.410 | 0.390 | 0.370 | 0.352 | 0.335 |
| 7 | 0.482 | 0.452 | 0.425 | 0.400 | 0.376 | 0.354 | 0.333 | 0.314 | 0.296 | 0.279 |
| 8 | 0.434 | 0.404 | 0.376 | 0.351 | 0.327 | 0.305 | 0.285 | 0.266 | 0.249 | 0.233 |
| 9 | 0.391 | 0.361 | 0.333 | 0.308 | 0.284 | 0.263 | 0.243 | 0.225 | 0.209 | 0.194 |
| 10 | 0.352 | 0.322 | 0.295 | 0.270 | 0.247 | 0.227 | 0.208 | 0.191 | 0.176 | 0.162 |
| 11 | 0.317 | 0.287 | 0.261 | 0.237 | 0.215 | 0.195 | 0.178 | 0.162 | 0.148 | 0.135 |
| 12 | 0.286 | 0.257 | 0.231 | 0.208 | 0.187 | 0.168 | 0.152 | 0.137 | 0.124 | 0.112 |
| 13 | 0.258 | 0.229 | 0.204 | 0.182 | 0.163 | 0.145 | 0.130 | 0.116 | 0.104 | 0.093 |
| 14 | 0.232 | 0.205 | 0.181 | 0.160 | 0.141 | 0.125 | 0.111 | 0.099 | 0.088 | 0.078 |
| 15 | 0.209 | 0.183 | 0.160 | 0.140 | 0.123 | 0.108 | 0.095 | 0.084 | 0.079 | 0.065 |
| 16 | 0.188 | 0.163 | 0.141 | 0.123 | 0.107 | 0.093 | 0.081 | 0.071 | 0.062 | 0.054 |
| 17 | 0.170 | 0.146 | 0.125 | 0.108 | 0.093 | 0.080 | 0.069 | 0.060 | 0.052 | 0.045 |
| 18 | 0.153 | 0.130 | 0.111 | 0.095 | 0.081 | 0.069 | 0.059 | 0.051 | 0.044 | 0.038 |
| 19 | 0.138 | 0.116 | 0.098 | 0.083 | 0.070 | 0.060 | 0.051 | 0.043 | 0.037 | 0.031 |
| 20 | 0.124 | 0.104 | 0.087 | 0.073 | 0.061 | 0.051 | 0.043 | 0.037 | 0.031 | 0.026 |

End of Question Paper