



Institute of Certified Management Accountants of Sri Lanka
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May 2022 Examination

Strategic Level **SMA - 401 Strategic Management Accounting**

No. of Pages: 10
No. of Questions: 05

Instructions to Candidates:

1. Time Allowed : Reading- **15 minutes**
Writing - **Three (3) hours** .
2. Total : **100** Marks
3. This paper consists of two Parts.
Part-1: Question no. 01 (**Compulsory**)
Part- II: Question no. 02 – 05 (**Select any 03 questions**)
4. Answer only four (04) questions **including** Question No. 01
5. The answers should be in **English** language.
6. Begin each answer on a separate page in the answer booklet.
7. Only non-programmable calculators are permitted to use.

PART – I **Compulsory**

QUESTION NO. 01

Designer-Wear has been in the business of apparel manufacturing for two decades. A wide variety of products from kids to adults' Design-Wear, Active-Wear, and Swim-Wear together with new technological products includes in their product portfolio. In the meantime, lean manufacturing philosophy drives Designer-Wear to be competitive in the global and the local market. Having established itself as a high-performing company in the apparel industry in Sri Lanka, catering to leading global brands, Designer-wear reached its performance recording in 2019, as the best year. However, this was short-lived.

Due to the global pandemic, it started losing customers and business circumstances gradually turned unfavorable. By the end of the first quarter of 2020, the top management was unhappy with the quarterly reports and projected sales, which indicated that global customers were canceling orders and the garments' costs were increasing. Cost increments happened due to supply chain barriers including higher freight charges, difficulties in importing raw materials, spreading Covid-19 among the operational staff which reasoned for health and safety issues and absenteeism, higher overtime, factory closures and customer settlement delays etc. While these issues were rising within the business, banks and financial institutions in Sri Lanka published apparel as a risky industry.

As a result, the Management Accounting Team of the company had to revisit its reactive, manufacturing-related, data orientated and existing products focused reporting to a more strategic focused reporting to support the top management and the Executive Committee (EXCO) to make strategic decision making in this turbulent business environment.

As one of the strategic focused approaches, the EXCO asked the Management Accounting Team to calculate scenario-based analysis for Three (03) possible scenarios (best case, bare and very bare) that could be faced by the company during the year 2021. Table 01 presents the scenario of the 'Best case of the Company'.

Table 01: Scenario – Best Case

Description	Design-wear	Active-wear	Swim-wear	Total
Budgeted Sales 2021 (Rs.)	25,000,000	40,000,000	20,000,000	85,000,000
Forecasted Sales 2021(Rs.)	30,000,000	48,000,000	24,000,000	102,000,000
Sales Impact (Rs.)	5,000,000	8,000,000	4,000,000	17,000,000
Budgeted No. of production (pieces) in 2021	50,000	100,000	40,000	190,000
Forecasted No. of production (pieces) in 2021	60,000	120,000	48,000	228,000
Impact on No. of pieces	10,000	20,000	8,000	38,000
Budgeted Gross Profit per piece (Rs.)	175	180	200	-
Gross Profit Impact (Volume)	1,750,000	3,600,000	1,600,000	6,950,000
Forecasted Gross Profit per piece (Rs.)	150	200	225	-
Budgeted vs forecasted Gross Profit per piece (Rs.)	(25)	20	25	0
Gross Profit Impact (Rate)	(1,250,000)	2,000,000	1,000,000	1,750,000
Total Impact	500,000	5,600,000	2,600,000	8,700,000

The market analysis team of the company has further forecasted the following data related to the 'bare' and 'very bare' scenarios of the company.

Description	Bare	Very bare
Sales - Design Wear	-6%	-15%
Sales - Active Wear	-5%	-12%
Sales - Swim Wear	-7%	-10%
Gross profit – Design-Wear	-8%	-12%
Gross profit – Active-Wear	-5%	-8%
Gross profit – Swim-Wear	-6%	-10%

You are required to:

1.1. As explained in the case, the apparel industry is continuously evolving necessitating to change the role of the Management Accountant of the organization. **Discuss** how role of the Management Accountant is to be changed to make the survival of the organisation in this turbulent business environment.

(10 Marks)

1.2. Based on the data provided in the case of Designer-Wear, **Compute** the impact on the business under the scenarios of 'bare' and 'very bare'.

(10 Marks)

1.3. The Management Accounting team of the Designer-Wear is planning to make a presentation to the top management on possible 'strategic cost management initiatives' that could be implemented in the company. **Recommend** key points to be included in the MA team's presentation.

(10 Marks)

1.4. **Explain** how Value Chain Analysis could be used to secure the strategic position of the case organization.

(10 Marks)

[Total 40 Marks]

PART – II

Answer any three (03) Questions.

QUESTION NO. 02

Part-A

Alpha Plc is an apparel manufacturing firm producing product W. The marketing team has estimated the level of demand for the next month at different selling prices as follows;

Demand (units)	Selling Price per Unit (Rs.)	Cost per Unit (Rs.)
1100	5,800	3,200
1200	5,600	3,100
1300	5,500	3,000
1400	5,200	2,900

You are required:

- 2.1. Compute** the marginal revenues and marginal costs for product W at the different levels of demand and **determine** the selling price at which company profits are maximized.

(05 Marks)

PART-B

A mobile phone manufacturer is enhancing its product range and continues to develop new models to satisfy its customers. The company makes sure that it has products at each stage of the Product Life Cycle (PLC).

Currently, it has three (03) products; Vivo, Pixel and X40.

Vivo was introduced to the market two years ago and now it is entering the maturity stage of its life cycle. The maturity stage is expected to last for fifteen (15) weeks. The variable production cost of Vivo is Rs.12,000/- per unit. The merchandising team is unsure which of four possible prices the company should charge during the next fifteen weeks for the product Vivo. The following table shows the results of some market research into the level of weekly demand at alternative prices:

Selling Price of one unit of Vivo (Rs.)	21,000	18,000	15,000	13,000
Weekly Demand	600	800	1,000	1,200

Following a penetration pricing policy, Pixel has introduced to the market a few months ago and as per the market research team, Pixel is entering the growth stage of its PLC. The growth stage is expected to last for four months. The variable cost of Pixel is Rs.8,500/- per unit. Market research has indicated that there is a linear relationship ($P = a - bx$) between its selling price and the number of units demanded. The team has further found that at a selling price of Rs.16,000/- per unit demand is expected to be 1,000 units per week. For every Rs.1,000/- increase in selling price, the weekly demand will fall by 200 units and for every Rs.1,000/- decrease in selling price, the weekly demand will rise by 200 units. The product X40 is still in the development stage and the company expects to apply a market skimming pricing policy to price this product. The production capacity of the company for the period is 1,200 units of Pixel phones.

You are required:

2.2. Compute the selling prices that should be charged for product Vivo, to maximize its contribution during the maturity stage of its PLC.

(06 Marks)

2.3. Determine the selling price of the product Pixel to be during its growth stage.

(06 Marks)

2.4. Explain the applicability of penetration and skimming pricing strategies during the introduction stage of the PLC.

(03 Marks)

[Total 20 Marks]

QUESTION NO. 03

Nick Elber commenced Nick plastic (PVT) Ltd to produce plastic moulds and children toys to local business firms in his home city a number of years ago. The Nick plastic Ltd was organized in a traditional structure of a pyramid shape with lines of responsibility flowing from the CEO through the vice presidents to middle- and lower-level managers.

Over the years, with the tremendous growth of the business, Nick Plastic Ltd expanded its business supplying plastic moulds and other plastic products to both local customers as well as international customers.

Subsequently, the production flow was restructured initiating several business units. This resulted in lines of responsibility becoming longer. As an improvement, firstly Nick plastic Ltd decided to decentralise responsibilities identifying two responsibility centres namely, Components division and Goods Division.

The Components Division produces a part, which is the input to the Goods Division. The cost of a part at the Components Division is as follows:

Description	Rs.
Direct materials	10
Direct labour	2
Variable overhead	3
Fixed overhead*	5
Total cost	20

*Based on a practical volume of 200,000 parts.

Other costs incurred by the Components Division are as follows:

- Fixed selling and administrative Rs.500,000/-
- Variable selling expenses Rs.1/- per unit

The part usually sells between Rs.28/- and Rs.30/- in the external market. Currently, the Components Division is selling it to external customers for Rs.29/-. The division is capable of producing 200,000 units of the part per year; however, because of the adverse economic conditions, only 150,000 parts are expected to be sold during the forthcoming year. The variable selling expenses are avoidable if the part is sold internally.

As per the company policy, the Goods Division is allowed to purchase the component part either from internally or externally. It has been purchasing the same part from an external supplier for

Rs.28/-. It plans to purchase additional 50,000 units of the part during the forthcoming year. The manager of the Goods Division has offered to buy 50,000 units from the Components Division for Rs.18/- per unit.

You are required:

3.1. Explain what do you mean by 'responsibility accounting' and how 'controllability concept' influences the evaluation of a responsibility centre's financial performance.

(04 Marks)

3.2. Discuss the at least two behavioural issues that could arise due to the new approach (i.e. decentralisation) introduced to the Nick plastic Ltd.

(04 Marks)

3.3.

a) Determine the minimum transfer price that the Components Division would accept and the maximum transfer price that the manager of the Goods Division would be willing to pay.

(03 Marks)

b) If you were the manager of the Components Division, would you sell 50,000 components for Rs.18 each? Explain.

(02 Marks)

In addition to the production of plastic moulds, the factory located in the head-office of Nick plastic (PVT) Ltd produces children toys and sells their products to diverse customers. With the expansion of demand for the plastic products, the director-sales restructured the sales division into another three sales divisions named Metro, Suburban and Regional. Each division is responsible for all aspects of the sales services for a particular sales line. Data for these three divisions for last year were as follows:

	Metro Rs.	Suburban Rs.	Regional Rs.
Service revenue	1,900 000	1,500,000	700,000
Variable expenses	300,000	200,000	100,000

In addition to the expenses listed above, advertising, stationary and salary costs to the operations of the Metro, Suburban and Regional Divisions are Rs.700,000/-, Rs.540,000/- and Rs.200,000/- respectively. Further, office rental and sales consultant's fees for the three divisions is Rs.360,000/-, Rs.300,000/- and Rs.80,000/- respectively. The company incurred Rs.90,000/- of administration/ accounting services commonly for three sales divisions.

You are required:

- 3.4. Prepare** a profit statement that highlights the performance of each business unit— Metro, Suburban, and Regional and the overall performance of all three divisions, and discuss how real-time reporting of divisional performance contributes to improving the competitive advantage of an organization.

(07 Marks)

[Total 20 Marks]

QUESTION NO. 04

While the reporting of sustainability performance is increasing globally, the practice has been criticised. Some critics claim that producing sustainability reports is a waste of time and money, and that such reports are just vehicles for green wash. That is, there is a suggestion that some organisations that engage in sustainability reporting exaggerate their performance and adoption of sustainability principles. However, with a large number of companies adopting Global Reporting Initiative (GRI) framework guidelines for their reporting and an increasing number obtaining external assurance, it is becoming more difficult to deceive stakeholders. In particular, the adoption of GRI reporting guidelines requires organisations to identify the sustainability related aspects upon which their organisation may have an impact and to implement performance measurement and reporting systems to manage those impacts.

You are required:

- 4.1. Explain** what is meant by sustainability reporting and the way integrated reports relate to sustainability reports.

(06 Marks)

- 4.2. Discuss** why organisations report their sustainability performance, particularly when in many countries such reporting is voluntary, and how management accounting systems can be adapted to enable an organisation to engage in sustainability reporting.

(08 Marks)

- 4.3. Explain** how Balanced-Scorecard can be adapted to include sustainability measures in an organisation to evaluate the impact of their current activities on the environment and society.

(06 Marks)

[Total 20 Marks]

QUESTION NO. 05

Tecno Ltd. manufactures different types of airflow sensors for both local and international customers. In a normal operating environment, airflow sensors have a steady demand. Tecno Ltd. sources the required material from the local suppliers. The company has a rented warehouse to store the material and finished good stocks. The different types of airflow sensors which are produced by Tecno Ltd. have short production runs.

In recent years, company has faced constant delays in production process due to the weaknesses in its existing production and inventory managements systems. As a solution for this issue, the CEO of the company has suggested to introduce the Just-in-Time (JIT) system to Tecno Ltd. Hence, CEO has requested the management accountant to prepare a discussion paper about JIT system and present it to the next management meeting assuming that you are the management accountant of Tecno Ltd..

You are required to:

5.1. Distinguish between the traditional inventory management system and the JIT system.

(06 Marks)

5.2. Discuss the appropriateness of introducing the JIT system to Tecno Ltd.

(Assume that the company is operating under normal conditions and no impact from the COVID 19 pandemic)

(08 Marks)

Assume that the demand for airflow sensors which are included in the ventilators, have been drastically increased due to the COVID 19 pandemic. However, the entire operations of Tecno Ltd. have been disrupted during the pandemic as a result of the global and country level lockdowns. As the management accountant, you have a contradictory view on the implementation of JIT system in Tecno Ltd. during the COVID 19 pandemic, as the JIT management system does not promote keeping safty stocks.

You are required to:

5.3. Justify your opinion.

(06 Marks)

[Total 20 Marks]

-End of the Question Paper-