



Institute of Certified Management Accountants of Sri Lanka
Incorporated by Parliament Act No.23 of 2009

May 2023 Examination

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

No. of Pages: 08
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

Fast Moving Consumer Goods (FMCG) (for example, milk, biscuits, soap, and over-the-counter drugs such as aspirin) are products that are sold fast and are offered to the market relatively at a low cost and consumers spend more than half of their spending on these products.

The FMCG sector in Sri Lanka has been influenced by macro and micro economic factors as well as the post-pandemic state of the country. Within this background, several niche FMCG products have witnessed growth and several discretionary FMCG products have shrunk by being affected by these factors negatively to their businesses.

Aivon PLC, is one of the largest fast-moving consumer goods (FMCG) companies in Sri Lanka and has secured a place among the top 10 companies in LMD 100 list in Sri Lanka. During March, April, May and June months of 2022, Aivon PLC experienced an unanticipated demand for their products and the company explains this scenario as a 'customers' panic-buying' due to anticipation of the hyperinflation situation in the country.

However, this higher and unexpected demand for the company products could not improve the bottom line of the company due to the simultaneous increment of the production cost which resulted from the Sri Lankan rupee value depreciation and hyperinflation scenario. Against this backdrop, the management of the company made a strategic decision to increase the prices of the FMCG products it offers. Although such an attempt is taken, the company had been experiencing the same shrinking bottom line. This situation got worsened with an unexpected sales volume reduction from June 2022. This resulted in a further drop in the net profit of the company (see, figure 01).

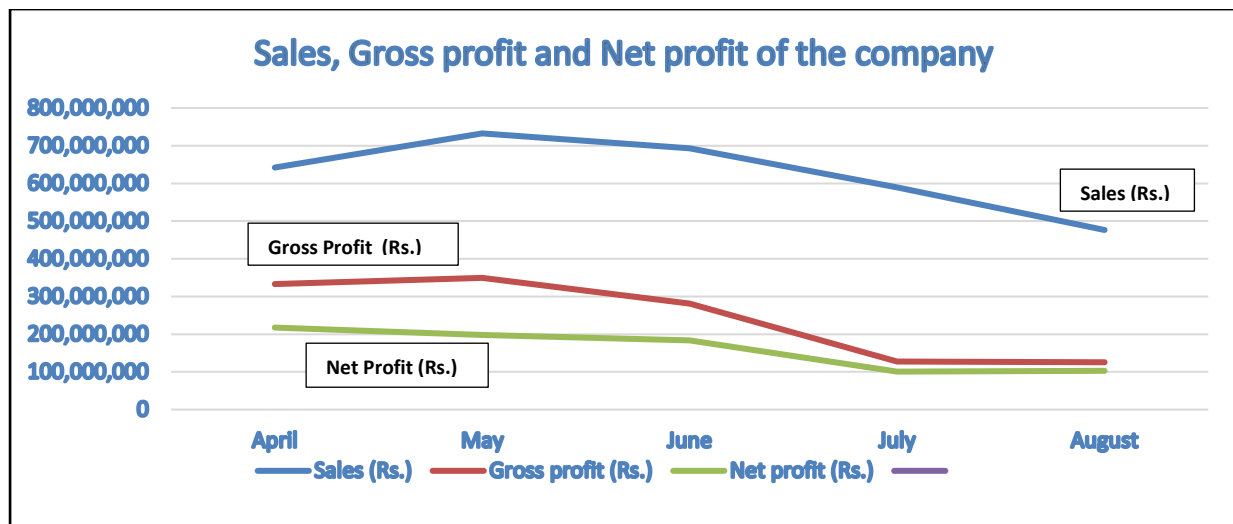


Figure 01: Sales, GP and NP of the company

As an attempt of improving the situation of the company, the Executive Committee meeting (EXCO) decided to evaluate two strategic options: strategic position analysis and value chain analysis for each product they produce.

The production manager of the company stated that infrastructure, human resources management and technological development, procurement, processing, packaging and labeling, distribution and marketing and supermarket and retail are the activities involved in soap production. For a batch of 1,000Kg of soap, the production costs are; raw material- Rs.900,000/, Labour - Rs.100,000/-, Overhead-Rs.50,000/-, packing and labeling - Rs.250,000/-, distribution and marketing Rs. 100,000/- and supermarket and retailer cost Rs.3.50 per soap. The current value addition percentages are 10.45%, 19.92% and 7.5% respectively for processing, packaging, labeling, and distribution and marketing stages. However, the industry value addition rates are 14.25%, 23.46% and 5.75% respectively for the above stages.

In the meantime, the following issues are identified in relation to soap production and distribution. There is little variation and innovations in soap packaging containers allowing for a significant amount of product imitation, the paper used for packaging and labeling is lacking in quality, poor print and finishing quality, low-quality manufacturing equipment and the short lifespan of ingredients as a result of the methods used for transportation and storage.

Regarding the second strategic option, the FD mentioned that the Management Accountant and his team could conduct a strategic positioning analysis. The Marketing Director also stressed the importance of such analysis and determine the best positioning strategy for the products they produce.

Among these products, toothpaste packs is one of the key products they produce. The top management agreed to connect the marketing team with the MI team to perform such an analysis and to start with the toothpaste packs.

While being the political instability and the reduction of the customers' purchasing power (due to hyperinflation) in one hand, the unavailability of required chemical ingredients due to import restrictions lead to the purchase of alternative materials from Sri Lankan suppliers at a high cost. In the meantime, customers' purchase intention has turned towards traditional ayurvedic toothpaste and its substitutes. While these happen in the macro environment, within the micro-environment, competitors, who are providing low-cost toothpaste, have been gradually capturing Aivon's market share.

The Aivon PLC has understood that the technology they used for toothpaste production is not up to date, nevertheless, the company is not in an position to invest in new tech due to cash flow issues. Thus, introducing new features for toothpaste is not possible in the short run. However, a market research done by the marketing team revealed that the customers are still willing to purchase Aivon PLC's toothpaste, if available at a low price.

YOU ARE REQUIRED TO:

1.1. Assuming that you are the team leader of the Management Information (MI) team, perform a 'strategic positioning analysis' and **prepare** a report thereon to the EXCO of the company.

(08 Marks)

1.2. Identify the primary and secondary activities with their values in the soap production value chain indicating your justification for the selection and **comment** on the identified issues in the value chain.

(12 Marks)

1.3. Recommend possible solutions to the identified issues in the soap manufacturing value chain of Aivon PLC.

(12 Marks)

1.4. Explain how the Management Accountant of Aivon PLC could be a 'value-adding member' in the current scenario.

(08 Marks)

[Total 40 Marks]

PART – II

Answer any three (03) Questions.

QUESTION NO. 02

Critical Success Factors (CSF) are those areas in which the organization needs to perform best to achieve overall organizational success. However, the determination of CSFs does not ensure organizational success.

YOU ARE REQUIRED TO:

2.1. 'Inaccurate identification of Critical Success Factors (CSF) leads to an unsuccessful business goal achievement'. **Elaborate** on how a business organization could determine its CSFs to ensure its long-term success.

(07 Marks)

2.2. **Explain** how Activity Based Management (ABM) could be used for the development of KPIs for an organization in the manufacturing industry.

(07 Marks)

2.3. Identify three (03) KPIs for the organizational strategy of 'drive organizational performance for long-term environmental sustainability' and **provide justifications** for your suggestions.

(06 Marks)

[Total 20 Marks]

QUESTION NO. 03

PART-A

Compack (Pvt) Ltd is a packaging company that provides packaging services for famous spice products in the country. The company had purchased a packaging machine that is capable of serving a number of packaging types as per the client requirements. Compack (Pvt) Ltd invested in this machine 2 years ago, after a thorough analysis of the potential cashflows for a period of five (5) years. With a drop in the market demand for spices, the expected order quantities were not received and the potential to pay back the investment is doubted by the management of Compack. Management is now considering abandoning this project/investment as they have lost confidence on projected cashflows.

YOU ARE REQUIRED:

3.1. Discuss whether the consideration of cash flow alone is sufficient to make such an abandonment decision.

(10 Marks)

PART-B

A large retail company wants to analyze the purchasing behavior of its customers to identify patterns and trends. The company has millions of customers who make purchases in thousands of stores, generating a vast amount of data each day. The data generated by the company is not structured and comes from various sources such as point-of-sale systems, online transactions, social media, and customer feedback. It is essential to integrate and analyze all these data sources to extract meaningful insights. Data generated by the company is created at an unprecedented speed, and it must be analyzed quickly to make real-time business decisions. However, data cleaning is required before using them for analysis.

YOU ARE REQUIRED:

3.2. Describe the four main features (4Vs) of data that constitutes Big Data, highlighting the importance of such features for a retailer in successful business analysis.

(10 Marks)

[Total 20 Marks]

QUESTION NO. 04

Chemilux PLC is a large firm that manufactures and sells products that contain harmful chemicals, which have the potential of causing serious health problems. Despite knowing about the risks of producing harmful implications to the customers as well as to the environment, the company chooses to continue using the chemicals in their products to increase their profits. This has resulted in polluting the nearby waterways and soil, affecting the health of local communities and wildlife.

Chemilux PLC fails to provide sufficient safety measures for their workers who are exposed to these chemicals during the manufacturing process. They do not provide protective equipment or proper ventilation systems, and they fail to train workers on the proper handling of these harmful materials.

In all these instances the company is placing its own financial gain above the health and safety of its customers, the environment, and its workers, resulting a violation of principles of social responsibility.

YOU ARE REQUIRED TO:

4.1. Advice the management of Chemilux PLC as to the importance of adhering to sustainability practices, referring to how concerns of social responsibility of business organizations evolved over the past few years.

(06 Marks)

4.2. Discuss the Chemilux PLC's violations of social responsibility principles.

(08 Marks)

Organizations adopt Balanced Scorecard as a more effective approach towards measuring and managing performance. When adopted for managing social responsibility and ethical concerns, it helps organizations to measure and manage their sustainability performance through critical performance indicators.

You are required:

4.3. Explain the options available for an organization that uses Balanced Scorecard approach in managing performance, to adopt Balanced Scorecard-based performance indicators in managing sustainability concerns.

(06 Marks)

[Total 20 Marks]

QUESTION NO. 05

Promo Global Ltd. is a multinational company that has recently expanded establishing a strategic business unit in a developing country in South Asia. The company intends to continue with its current management accounting practices, which are aligned with global practices. However, the Management Accountant realizes that there are several challenges to overcome in adopting these global practices in a developing country.

In planning to implement management accounting practices that are used in the global context, the Management Accountant realizes that the availability of an established set of guidelines is useful. A consultant to Promo Global Ltd advised in this regard, the availability of global

management accounting principles collectively issued by the AICPA and CIMA to ensure uniformity in reporting internationally.

You are required:

5.1. Describe different conditions influencing the adoption of global management accounting practices in a developing country.

(10 Marks)

5.2. Advise the management of Promo Global Ltd on the available global management accounting principles issued by AICPA and CIMA for effective decision making.

(10 Marks)

[Total 20 Marks]

-End of the Question Paper-