



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

November 2021 Examination

Strategic Level **BSR – 403 Business Strategy & Risk Management**

No. of Pages: 08
No. of Questions: 06

Instructions to Candidates:

1. Time Allowed : Writing - **Three (3) hours**
Reading and Software handling– **30 minutes.**
2. Total : **100** Marks.
3. This paper consists of three Parts.
Part-1: Question no. 01 (**Compulsory**).
Part- II: Question no. 02 – 04 (**Select any 02 questions**).
Part- III: Question no. 05 – 06 (**Answer all questions**)
4. Answer only five (05) questions **including** Question No. 01.
5. The answers should be in **English** language.

This examination was conducted online on Pearson VUE platform

PART – I

Compulsory

QUESTION NO.01

Sri Lankan Traditional Foods Ltd (SLTF) is a small company engaged in preparing and marketing a limited range of traditional sweets of Sri Lankan origin. It was established in the year 2016 by Indika, a young graduate from one of the Hotel schools and it has been operating for some time on a limited scale, selling its products at a convenient location in Nittambuwa, bordering Kandy Road. The business premises happens to be a partitioned section of a family's ancestral house. The development of the products of the business was greatly assisted by his mother and grandmother who have always been proud of their recipes of a range of traditional sweets. As the family's only son Indika had the freedom to conduct his business from the residential premises with a considerable commercial value. In 2019 he registered his company SLTF Ltd bearing this address, him having 50% and the two sisters holding the balance shares.

Currently SLTF mostly serves drive-in customers who are prepared to pay a higher price for genuine handmade Sri Lankan sweets, apart from the range from the northern and eastern parts of the country, available with freshness and carefully packed with strict enforcement of expiry dates. Those Sri Lankans who visit foreign countries and foreign tourists form another regular customer segment of the business. These segments appear to be growing steadily. Since 2020, with the advent of Covid 19, the company commenced a delivery service to accommodate purchases within a close range from Nittambuwa. SLTF is a late entrant to this market of 'traditional Sri Lankan sweets' as there are more established, prominent competitors already existing in this marketplace.

The elder sister manages the food preparation and packaging processes assisted by a few lady workers and two experienced males being with Indika from the inception. The younger sister who has studied accounting looks after the shop where sales are affected, cash management, record keeping, and maintaining the stocks of raw materials. Indika mostly attends to sourcing of materials and ingredients apart from controlling and maintaining the quality of the products as well as providing advice on how to combine the newer techniques and preparation and preservation. Finding and holding genuine, fresh ingredients for the products are difficult to find and hence considered an important determinant of product quality that Indika feels needs to be personally supervised by him.

One of the SLTFs regular customers is the MD of a wealthy freight forwarding company with the company's branch offices in the UK and the Middle East. He has recently expressed his to be a partner of the business and has indicated the possibility of providing financial capability so that SLTF can expand its operations including exposures into foreign markets. It has also been indicated that if Indika is interested in principle, the first step is to prepare a business plan that will be examined by the top management of the freight forwarding company. Indika who is not happy with the current growth at SLTF and hence quite interested in this potential opportunity, and after discussing with his sisters also, approached you as a professional accountant to assist and guide him in this endeavor.

You are required:

1.1. Categorize and briefly **explain** the scope of the below areas that form integral sections of a good business plan and **illustrate** by quoting an example in respect of each such area, with particular reference to Sri Lankan Traditional Foods Company. It is necessary to also consider that this plan will have to take in to account the proposal by the MD of the freight forwarding company.

a) Macro environmental analysis.

(10 Marks)

b) Functional analysis.

(06 Marks)

c) Formulation of a practical 'mission' for SLTF that will promote growth.

(10 Marks)

d) Critical Success Factors.

(06 Marks)

e) Strategic objectives.

(06 Marks)

f) Financial objectives.

(02 Marks)

[Total 40 Marks]

Part - II

Answer any two (02) questions.

QUESTION NO.02

No Hassle Finance Company PLC (NHF) is a medium- scale financial organization in the non -bank financial Institution's sector, also operating an island wide branch network. The company provides three types of loans namely Leasing, Business Loans, and Gold Loans (Ran Naya) in each branch.

From the inception, granting of gold loans is one of the operating divisions of the company that functions under a divisional manager while the other two products operate under another divisional manager. Each branch is equipped with a gold loan center and dedicated staff for such activities. Both divisional managers report to the CEO of NHF.

To achieve cost rationalization for the company, a decision has been made to combine all three business operations under the divisional manager- Leasing and Business Loans, and the gold loan divisional manager to assist the staff of all gold loan centers in the branches as this is a specialized operation requiring expert knowledge and therefore all are required to operate in the form of a 'matrix structure'.

You are required:

2.1. Categorize and describe the nature of the 'change' affected at NHF, as described in the above scenario.

(10 Marks)

2.2. Explain the concept of a 'matrix structure' drawing information and **illustrate** same with reference to the above scenario, at NHF.

(05 Marks)

[Total 15 Marks]

QUESTION NO.03

Dynamic Enterprises is a large organization that is engaged in marketing Sri Lankan spices with an island-wide distributor network. The products supplied by the company are renowned for their superior quality supported by excellence in customer service. From the inception of the company in 1987, the Chairman Naresh has always emphasized the importance of conforming to these values and the company earns supernormal profits. The company's employees are paid fixed salaries on the due date and are considered to be on par with the industry.

The supply chain that is applicable in the marketing process of high-quality spices is relatively complicated and a complex one because of the scarcities in sourcing genuine products and difficulties of promoting sales with the wholesalers, in a competitive market.

You are required:

3.1. Illustrate how the 'culture' of the Dynamic Enterprises relates to 'strategy' and 'control' of the company.

(10 Marks)

3.2. Recommend how, reward policies of the company can assist to improve the strategy implementation at Dynamic Enterprises.

(05 Marks)

[Total 15 Marks]

QUESTION NO.04

Trustworthy Finance Company PLC (TFC) is a non-banking financial institution providing financial services such as granting loans and leases. It's equipped with an IT system that, the entire accounting and information systems are completely automated. For some time TFC is experiencing a steady loss of customers to its competitors despite charging comparatively lower interest rates. The top management is clearly puzzled regarding this development. TFC is also equipped with a clear strategy to obtain a competitive advantage.

You are required:

4.1. Describe how 'benchmarking' can be applied at TFC in assisting to solve the problem facing the company.

(07 Marks)

4.2. Illustrate the role of 'special alert controls' as a component of TFCs strategic controls.

(08 Marks)

[Total 15 Marks]

PART - III

Answer all questions.

QUESTION NO. 05

STF and KLF are two mid-sized companies that can broadly be classified as being in the Sri Lanka's vehicle industry but operating in two different segments. STF is a vehicle importer/marketeer in the premium market segment and KLF a company operating a fully equipped workshop and also imports its spares requirements.

STF is operating in a pivotal location in the city of Colombo that is owned by Roshan an experienced wealthy proprietor. He operates his business personally getting involved and with a few members of staff as the importing and clearing of vehicles is outsourced to a recognized clearing agency. It has no long-term loans and the bank interest incurred in the working capital deployed for the business is charged as a direct cost when computing vehicle selling prices.

KLF is employing skilled workmen and supervisory staff and is in a specially constructed workshop premises in a Colombo suburb with all modern repair tools, machinery etc. To cater for a wide range of vehicles the company has adequate stocks in its inventory and specialized workshop mechanics for different categories of vehicles. The workshop was constructed recently and mostly financed by a bank loan that has been granted with an annual interest revision clause.

You are required:

5.1. Categorize and explain the types of risks that the companies discussed in the above scenario are exposed under the present circumstances prevailing in Sri Lanka.

(08 Marks)

5.2. Compare and contrast the above-mentioned risks that are as applicable to both companies: STF and KLF.

(07 Marks)

[Total 15 Marks]

QUESTION NO. 06

One Stop Super Market (OSSM) Ltd is a large retail chain of supermarkets owned by a billionaire, a chemist, turned businessman who has made his money from an invention that he made and was patented many years ago. He decided to make a large investment two years ago to commence this supermarket chain as the patent was nearing its expiry and the objective was to settle and retire in the comfort of owning a large business. He recently invited his son to be the managing director who was educated in England and has experience as an accountant, initially been attached to an audit firm during his professional training.

The founding chairman is a strict disciplinarian, and his philosophy is that rules and regulations in the form of closely defined job roles and responsibilities, compliance with strict operating procedures, sufficient investment in working capital and financial controls will bring about desired performance. A risk averse personality, he basically does not want to take any risks such as in investing in slow moving items. This was because of guidance from his accountant that profitability is also equally affected by stock turnover, as much as from profit margins. “As long as we are financially sound and control our costs, we need not be concerned of any competitor actions” – a quote by the chairman at a recent management meeting. The internal audit function is outsourced to an audit firm and the periodical reports are confidentially and personally reviewed by the chairman. The Accounting division’s main responsibilities are the preparation of financial accounts, statutory reports, and taxation related work. The chairman has also indicated that the Managing Director, once he assumes duties will personally look after the risk function of the company because he will direct the internal auditors to work with him going forward as managing risks should be done confidentially.

You are required:

6.1. Critically evaluate the risk management at One Stop Super Market Ltd.

[Total 15 Marks]

-End of the Question Paper-