



Institute of Certified Management Accountants of Sri Lanka
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May 2023 Examination

Apex Level ICS – 501 Integrative Case Study

*No. of Pages:16
No. of Questions: 01(single report)*

Instructions to Candidates:

1. Time Allowed : Reading- **15 minutes.**
Writing - **Three (3) hours**
2. Total : **100** Marks
3. This paper consists of two Parts.
Scenario I: Published before the six weeks of the Exam.
Scenario II: Unseen and the Questions.
4. Answer all question.
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.

Scenario I

Superfine Holdings Ltd (SFHL) – A Group in the making

Introduction

Francis Someswaran is a successful entrepreneur who founded and operates a thriving medium-scale business, FS Water Pumps Ltd. (FSW) as one of the key regional manufacturers and marketers of a range of water pumps, based in Kandy. FSW is an established household brand of domestic pumps in particular, but also manufactures/assembles low- end agricultural water pumps. He has been operating his business based in the Central province as well as in its outskirts over several decades and has now reached a stage in his life cycle that requires some decisive action of transition and succession for his next generation.

On his seventieth birthday on the 10th of April 2022, he decided to announce to the family his decision to retire at an opportune date in the near future. Nevertheless, as a hardworking businessman with commitment and driven by a strong desire that his and the family name to be associated with a large growing business enterprise managed by his second generation with wide-ranging interests in the future, he mentioned that he will oversee the process of allocation of the existing business, personal interests, and resources between his three children. However, as members of a very closely knitted family, he asserted that the collective strength of all three together in one large company will be more resilient than being separated on their own. Yet there will be different divisions to their likings within a single company and this was what Francis envisioned as his personal passion. However, maybe only time will tell whether this thinking and wisdom of family integration from a materialistic perspective in the modern age will be the right one.

Apart from being a clever businessman he also possesses technical knowledge in his business with the JTO qualification from a technical college, and adequate exposure and training in manufacturing. Francis, who hailed from a family of ancestral repute and some of his siblings being leading professionals in legal and medical fraternities, always valued higher education and professionalism despite his failure to excel in higher studies. Well aware of the difficulties in commencing a business venture in the modern era compared to lesser volatile conditions long years ago, Francis knows his assistance by sharing his commonsense business insights in whichever new businesses his children wish to pursue will be an invaluable asset. With such insightful thinking, he planned to assign most of the valuable and tangible assets of his possession into a single enterprise under his control and part with the ownership progressively among the next generation. This thinking also received approval from his tax consultants cum auditors with whom Francis has had a longstanding association.

Superfine Holdings Ltd (SFHL) was incorporated on the 1st of February 2022 as the stepping stone of the succession initiative of Francis Someswaran. On the New Year celebrations on the 14th of April in concluding the traditional family lunch, the share certificates of SFHL, amounting to forty-five percent of the share capital of the company equally divided, were presented to the three children and Francis holding the majority of fifty- five percent. All three children were appointed as directors of SFHL and Francis was appointed as the Chairman who assured his children that he will only be functioning in an advisory, passive capacity. Additionally, Francis also appointed his family friend Lesley, a respected legal dignitary as a director of the company who will certainly bring more color and recognition to this family company. Francis and Lesley, have had several discussions prior to this day as to who should effectively lead this company and as agreed, invited his three children to decide between themselves and recommend one of them to function as the 'Managing Director' of SFHL. Accordingly, Bertram Someswaran, the second born of the Francis family was elected by Anjella Someswaran - the eldest and the only daughter of Francis, and Camillus Someswaran, the youngest son. Having married at a relatively mature age of late - thirties, Francis's first born - Anjella will reach her thirty- fifth birthday in the year 2023, and both Bertram and Camillus, their early thirties.

The second generation of Francis and corporate level directorate of SFHL holdings:

In announcing these developments among the family members, Francis took this opportunity to express his personal vision that he has also discussed with his wife and their longstanding confidant Lesley. Even without technical or conceptual training in business management, Francis firmly believes an adequate understanding of the collective integration of operational, marketing, and cost dynamics of a business is an essential key factor of business leadership for continued success and growth.

"In one of my previous discussions with you, all of you expressed willingness to fulfill your own dreams whilst carefully safeguarding what your mother and I have built up and acquired with much hard work and sweat over the last three decades. I know Camillus and Anjella want to pursue their own ambitions while Bertram was involved with me over the last four to five years. Not only it's coincidental that you both have elected Bertram as your leader, but it's also an encouragement for him to get more involved with the operational aspects of our business, with which we have made all this progress. With a marketing degree supplemented with an accounting qualification also, he is ideally equipped to run my operation as long as he takes sufficient interest and cares to study FSW's business model and understand the basic technicalities of manufacturing and sourcing of raw materials, etc. I know Bertram's capabilities in business marketing and developing relationships with our dealers etc., but as the head of the Pumps division, he will have to take more overall responsibility".

Especially addressing Anjella and Camillus, Francis mentioned “But it’s not fair that I expect both of you to also be mere passive partners. Pursue your own interests, but unlike those days it’s important that whatever you do must be with clear focus, commitment, and resolve. I will initially establish Anjella’s and Camillus’s respective business divisions on the premises that I have already, as well as I will acquire and get your ventures up and running.

Accordingly, Chairman Francis advised his three children to resolutely express their business interests for the future within three months and fixed 1st August 2022 which will determine their future intentions and ambitions in a brief outline.

Anjella graduated as a nutritionist who further completed her studies in Sweden in beauty culture. Sometime back she married Kalum - a doctor by profession and also pursued his interest in anti-aging treatment as a part of his postgraduate studies in the UK. He has always been discussing his ambitions with Anjella to get into private practice specializing in anti-aging.

Camillus is a mechanical engineer by profession with a master’s degree in automobile engineering. He is a head of a major automobile import and distribution organization that is currently undergoing serious issues due to recent import restrictions and is largely dependent upon the repair facilities, a SBU of that company. Accordingly, Camillus Someswaran is a key player in his current organization, currently leading its most profitable division. However, he was very excited since Francis made his intentions of affording an opportunity to pursue one’s own business aspirations for an independent lifelong career.

Meeting in August 2022 - Future business aspirations of Francis Someswaran’s second generation

The children of the Someswaran family expressed their intentions and desires for their future careers as below:

Anjella has decided to commence its business division as Superfine Nutritional and Anti-aging Clinic (SNAC). Her husband will also join and manage the division with particular emphasis on anti-aging treatments while Anjella will practice her competencies as a nutritionist. Their clinic will be an upmarket one and will be housed in the property in Colombo 07 that has already been acquired by her father and had made subtle indications of her being given the exclusive usage and ultimate ownership of this asset.

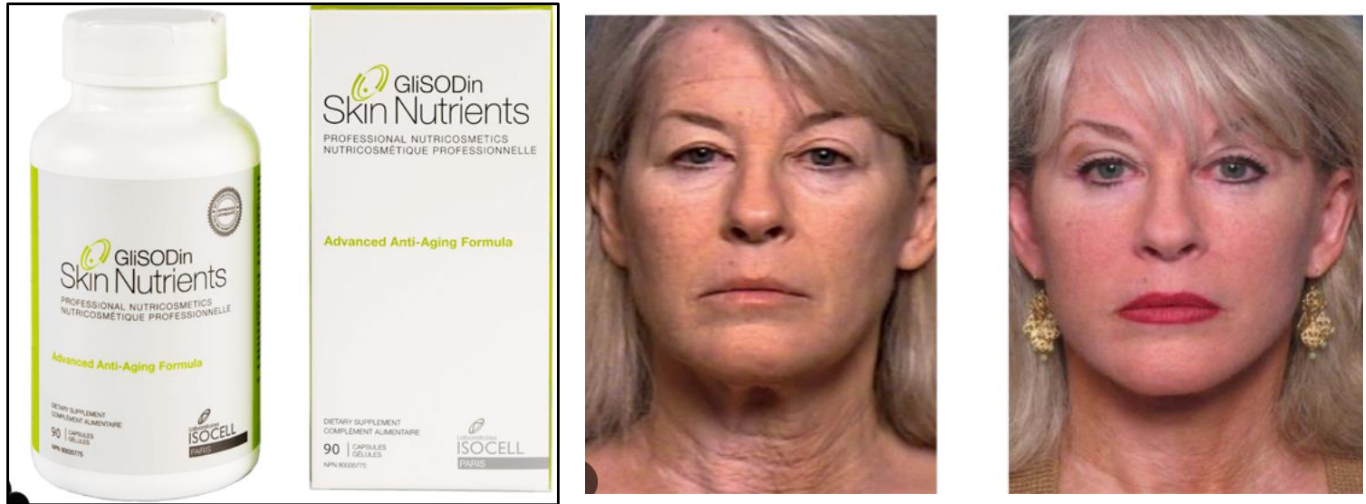
Bertram, in accordance with his father’s wishes, expressed his willingness to manage the family’s traditional water pump business with certain changes that he would propose in due course. This division within SFHL will be named Superfine FSW Pumps Division.

Camillus indicated his section of SFHL will operate as a Superfine Quality Bearings division that will import and market a range of bearings imported from Japan and Sweden. The business divisions of SFHL are discussed below:

An overview of the businesses divisions within Superfine Holdings Ltd (SFHL)

Division 1

Nutritional and Anti-aging treatments division -divisional CEO – Dr. Andrew



Beauty culture mainly addresses the technologies and social practices that help to create shape, color, or form that pleases the aesthetic senses, especially sight. These popularly include hair, make-up, skincare, and nail treatment. Numerous factors have led to the growth of beauty care as an industry in our country such as the increasing trend of female employment. Apart from mere improvement in the exterior appearance of females in particular, the growth in this industry is propelled by deeper motivations such as indulgence in beauty care could lead to potential empowerment and female confidence in society. The increasing number of such salons across the depth and breadth of the island is a clear pointer to the popularity of this societal trend amongst many societal segments.

Anti-aging treatments attract segments who are driven by deeper psychological desires to 'look younger' and related treatments can range from non-surgical to more advanced surgical treatments such as laser refractive surgery and surgical facelifts. It is always customary that more affluent societal segments wish such treatments to take place under qualified medical personnel. Anjella's husband is excited by his vision to be one of the most sought-after anti-aging treatment centers that could mostly serve high net- worth societal segments in the country and could even cater to those at a regional level.

Division 2

Superfine Quality Bearings division- divisional CEO- Engineer Camillus



The product range of this division will include two main product categories of bearings – namely automobile and machinery bearings. The manufacturers of both of these product groups, which the agency rights to

be held by SFHL produce range of high-quality products. The Japanese manufacturer supplies automobile bearings and the Swedish manufacturer is the supplier of the machinery bearings. The business will be conducted at a newly purchased two stories premises in Maradana-Panchikawatte, the most popular business location to market such equipment and spares, etc. in the country. Given those vehicles in the country are widely disbursed, the vehicle bearings will be distributed through the appointment of a network of a few key distributors across major provinces, who in turn will deal with the repair shops being the ultimate customers of the importing organization. With regards to the machinery bearings too, the industry practice and what SFHL will follow also is to distribute these through the appointment of distributors island-wide as the businesses that use such bearings are widely scattered. Further being a specialized technical product, the distributors will be aided by an internal network of technical marketing staff that will visit and advise on the applications and solve any customer problems.

Division 3

Superfine FSW Pumps Division - divisional GM -Dilan

Bearing in mind that this division includes the pioneering business venture by the founding chairman Francis in the form of domestic pumps, was later extended to market a limited edition of agricultural pumps. Since Bertram will have a group- wide responsibility in his new role as the MD, Dillan, an engineer, was appointed as the divisional General Manager as the division's principal executive directly reporting to Bertram. These are locally





assembled using locally manufactured components and only key parts such as impellers and seals are being imported. Francis always believed in encouraging young local technical entrepreneurs to develop their business talents and has developed a loyal network of SME manufacturers who have always valued the assistance afforded by SFHL and hence returned the

favors by providing consistently high quality at relatively cheaper prices.

Financial planning, forecasting, and strategy formulation initiatives at SFHL.

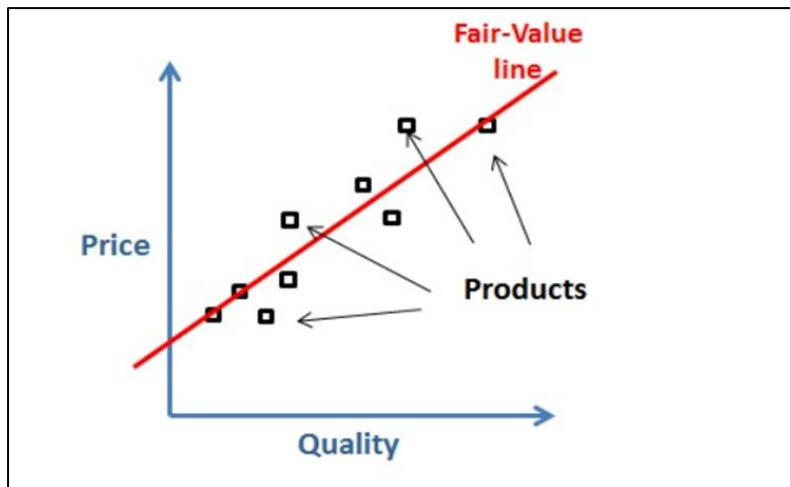
Shiva is a qualified CMA and has been newly appointed as the head of finance of SFHL. Along with Bertram, an internal planning committee was formed that included the heads of newly formed divisions at SFHL to come up with a financial forecast that will be resultant pursuing the business strategy of each division. These forecasts, as per Appendix 01, have been broken down under the respective divisions and even the product groupings of each such division.

As mentioned above, Appendix 01 contains this summarized, projected financial results compiled by Shiva for a normal year of operations (i.e. once the businesses pass through their initial introductory years), assisted by this multi-functional team of the company and the figures are at current prices. The operational KMPs of the respective divisions confirmed their agreement of being able to comply with the demand as per the sales forecasts given by the respective marketing divisions and Shiva as the financial expert projected the resulting financial figures further incorporating the cost- related information.

On this presentation, Francis was happy to note that the combined operations show a forecasted profit. Since he has negotiated with the bank along with Bertram, SFHL will have to commence repayments of the loan only after two years of commencing commercial operations, and until that time only the interest expenses to be serviced at 20%per annum. This rate is also applicable to any working capital facilities that SFHL plans to obtain to support in conducting its operations. The limit of such financial working capital facilities was agreed with the bankers at Rs. 200 Mn., a limit that will be applicable for the first two years of the company's operation, which includes both any short-term import loans for the imports and the overdraft facility. All L/C facilities for the imports of the company will not fall under such a limit.

Strategic factors that underlie financial forecasts

Figure 1- Price Quality Graph



Lesly advised all the family directors of SFHL on the importance of appointing a good strategy consultant who will advise a systematic strategic approach before launching the activities of the company. Accordingly, Dynamic Industrial Consultants (DIC) was

appointed to guide the internal management team that includes the head of finance, Bertram, and some SFHL senior operational and marketing staff. DIC is known to possess excellent marketing research information across a wide range of businesses and has also guided startup businesses to sharpen their approach to strategy and competitive marketing.

At a meeting DIC held with the directors of SFHL and the head of finance, they suggested that any strategically justifiable financial forecasts should extend beyond mere turnover forecasts given by the marketing managers of the respective divisions. Especially pointing towards Shiva, they advised that particularly being a new entrant, a progressive finance division should understand the strategic relevance and rationale of marketing forecasts that underlie turnover targets and resultant budgets. Further DIC advice continued as:

“That’s how the finance function can be an active strategic partner in a dynamic business environment. When one really looks at a financial forecast /budget in any business division, $\text{turnover} = \text{quantity} \times \text{price}$. Hence actually any forecast is as effective as the goodness of these two critical variables. Further, as you know, the effective strategic positioning of each product group is of vital importance. After all most of the customer segments targeted by SFHL, probably with the exception of Anjella’s division, are those who exhibit rational buying behavior.

Let me show you all a tool that we adopt in Pricing with a strategic flavor. (Figure 01)

At this juncture, Bertram was very interested in further pursuing the advice and requested the consultants to share with the consulting approach for a more strategically relevant approach in planning and arriving at more realistic and challenging targets.

DIC’s research indicates both secondary and primary research and has made use of such in relation to its strategic analysis in respect of its consulting assignment at SFHL.

Given that there are three separate divisions with several product groups within each as well, DIC initially selected the Superfine Quality Bearings division and more specifically the product grouping-Machinery bearings, within this major division at SFHL, for more in-depth studies. Given below is this information comparing SFHL (i.e. S) with two powerful competitors, namely C & D.

Machinery Bearings:

(A)	(S)	(C)	(D)
1.Reliability	85	70	90
2.Availability	75	80	40

Figure 2 - Principle buying motives of the product group- Machinery Bearings

A - Principal buying motives of the customer segments targeted by this product group of the SFHL's Machinery Bearings section, which is considered as equal importance to these customer segments

S - SFHL's score, out of a total score of 100, on each buying motive, as per A above

C - SFHL's principal competitor's score out of 100, on each buying motive as per A above

D - SFHL's second principal competitor's score out of 100, on each buying motive as per A above

As far as Francis is concerned, despite being a seasoned and successful businessman this is quite new jargon and looked curiously and even more confusingly at Shiva.

DIC concluded the meeting emphatically stating the importance of not only planning strategically, but also the value of implementation and controls at all levels. Specifically, the project leader of DIC mentioned, his experience suggests that to be successful in a dynamic business environment a company must have definitive arrangements to organize and improve systematic performance management mechanisms and practices ideally linked with the planned strategies under each of its SBUs. Totally agreeing with the consulting advice, at this juncture, Bertram announced his decision to assign this responsibility to Shiva, and Marina who will head the HR function at SFHL.

-End of the scenario I-

Appendix 01

1.1) Forecasted Draft Financial results of SFHL- End of the first year's operation
(What the Company will target to achieve under normal circumstances)

Forecasted Income Statement strating from 1st February 2022

Description	(in Rs 000's)
Turnover	1,708,000
Cost of Sales	1,205,200
Gross profit	502,800
Expenses	
Administration	198,800
Marketing and Sales	156,800
Finance Expenses	130,000
Profit Before Tax	17,200
Taxation @ 30%	5,160
Profit after Tax	12,040

1.2) Divisonal breakdown of the (draft) forecasted Trading results of the Divisions, and Product groups of SFHL

	Divison 1 (in Rs 000's)		Divison 2 (in Rs 000's)		Divison 3 (in Rs 000's)	
	Nutritional	Anti-Aging	Auto Bearings	Machinery Bearings	Domestic Pumps	Agricultural Pumps
Turnover	172,000	108,000	288,000	432,000	576,000	132,000
Cost of Sales	120,400	64,800	216,000	324,000	374,400	105,600

1.3) Overheads -Divisonal breakdown

	Divison 1 in Rs 000's)	Divison 2 in Rs 000's)	Divison 3 (in Rs 000's)	Total (in Rs 000's)
Administration	56,000	82,000	60,800	198,800
Marketing	14,000	62,000	80,800	156,800

1.4) Divisonal breakdown of SFHL's forecasted Assets and Liabilities that will support forecasted SFHL's operations							
Description	Divison 1		Divison 2		Divison 3		Total
	(in Rs 000's)		(in Rs 000's)		(in Rs 000's)		(in Rs 000's)
	Nutritional	Anti-Aging	Auto Bearings	Machinery Bearings	Domestic Pumps	Agricultural Pumps	
Non- Curret Assets							
Properties (At valuations)							
At Ward Place Colombo 07		175,000					175,000
At Kandy						165,000	165,000
At Maradana				140,000			140,000
Vehicles (At valuations/Cost)	15,000		25,000	35,000			75,000
Equipment and Tools etc.(At valuations/Cost)	35,000		85,000	15,000			135,000
Office Equipment,furniture etc. (At valuations/Cost)	43,000		25,000	23,000			91,000
Total Non- Curret Assets							781,000
Current Assets							
Inventory	40,133	5,400	36,000	81,000	20,800	5,867	189,200
Spares		3,000	6,000	6,500	5,000	1,000	21,500
Consumables							
Receivables	28,667	480	48,000	36,000	96,000	22,000	231,147
Total Current Assets							441,847
Total Assets							1,222,847
Equity & Liabilites							
Capital and Reserves							
Stated capital and Reserves							542,847
Non- Current Liabilites							
Long term loans							450,000
Current Liabilites							
Accrued Expenses							30,000
Bank overdraft /Short term loans							200,000
Total Current Liabilites							230,000
Total Equity & Liabilites							1,222,847

Scenario II

In his capacity, Shiva as the Head of Finance of SFHL, DIC stressed the importance of encouraging all the business units to think strategically so that the companies can become more customer oriented and competitively focused.

DIC inspected and studied the details forwarded by Shiva as per Appendix 1 in the form of forecasted financial performances, by implementing the planned strategies of the SBUs that comprise SFHL.

1. Product group - Machinery Bearings

In their discussions with MD Bertram, DIC mentioned that they propose to examine in detail a sample division of SFHL and a particular product group therein, so that this methodology can be applied across all divisions in assisting SFHL by way of consulting advice. MD agreed with this proposed course of consulting action. Accordingly, Machinery Bearings- product Group was selected as a case in point to study in detail. The idea of this course of action is that the Finance division could incorporate the improvements that could result due to implementing recommendations of strategic and operational relevance to the original financial forecasts as per Appendix- 1.

After concluding studies by DIC, it was required that the Finance division to further refine the profitability of the Machinery Bearings- Product group shown as per Appendix 1, in two stages as recommended below:

Stage 1

Amend the forecasted financial results available in pre-seen Appendix 1, to further incorporate below mentioned additional information as per items 1i) and 1 ii), so that the profitability of the product group - Machinery Bearings, will be available beyond the Operating level financial performance that is presented in the pre-seen appendices.

1i) Allocation of divisional overheads to Product Groupings

DIC was not satisfied by leaving unallocated divisional level overheads without being identified with the respective product groupings within the respective divisions. Accordingly, DIC made an attempt to observe and adopt cost drivers that can be applied to further allocate overheads from an activity-based perspective and have recommended the below proportions to allocate Administration and Marketing/sales expenses among the respective product groupings.

Product Group	Administration (Rs 000's)	Marketing and Sales (Rs 000's)
Nutritional	40,000	10,000
Anti-Aging	16,000	4,000
Auto-Bearings	30,000	30,000
Machinery Bearings	52,000	32,000
Domestic Pumps	50,000	61,000
Agricultural Pumps	10,800	19,800
Total	198,000	156,800

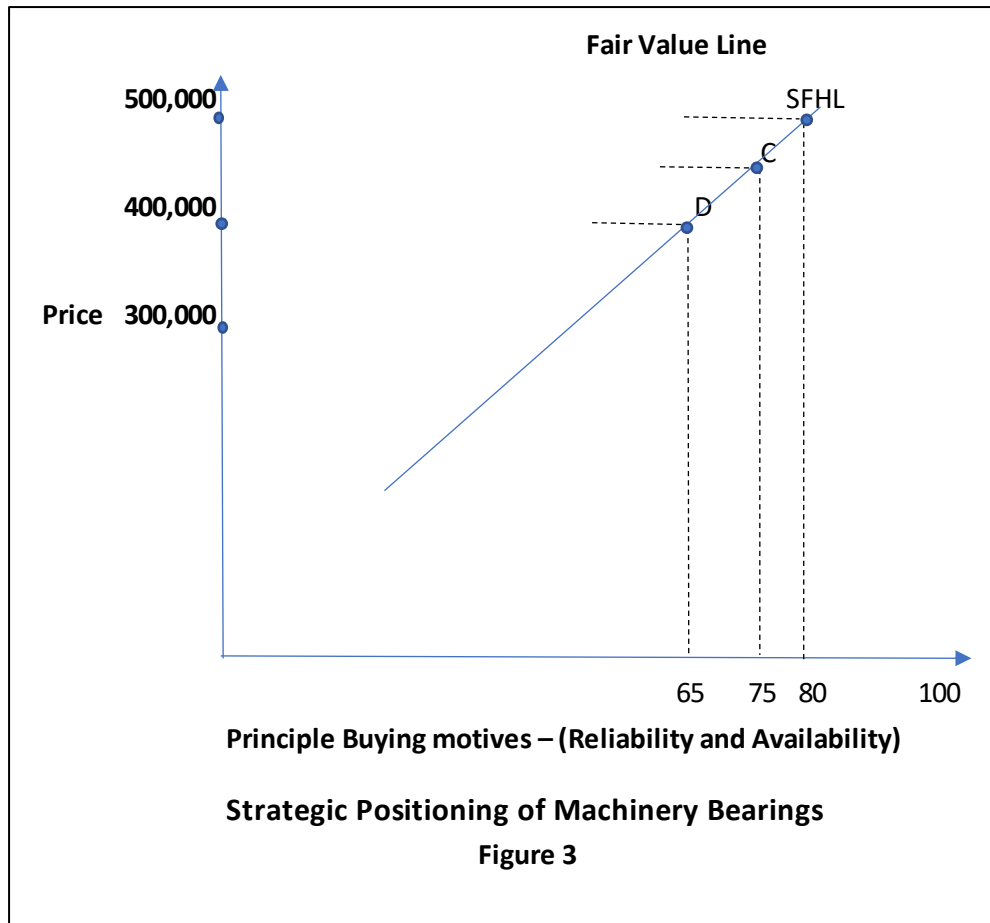
1 ii) Occupation of properties without any notional rental charges

It has been observed by DIC that all divisions that occupy company properties enjoy such occupation at no cost when ascertaining operating profits. The market rates of the rental charges applicable for such premises amount to nearly 1 % of their valuation. The occupation of space by the respective product groups within each division is proportionate to the 'cost of sales' of the applicable product groups within this division.

Stage 2

Additionally, it was required that these projections be further refined and improved by factoring the information that DIC presented as per Figure 2 in the pre-seen- page no 10, together with the strategic positioning map developed by DIC, as presented below in Figure 3, in respect of the product group - Machinery Bearings. This is so recommended by DIC because the pricing decision of the Bearings division is presently based on a cost-plus basis using the formula - cost (at the product level cost of sales) plus 33.3 %, which largely seems to ignore the strategic positioning of the product groups of this division. Hence DIC has recommended that the company should consider a revision of the forecasted pricing strategy of this product group according to the product group's positioning strategy.

As per the presented forecasts in Appendix-1, the average number of units forecasted to be sold by the Machinery Bearings division per annum is 1,000 units.



2. Performance Management of the SHFL Group

At a meeting that MD Bertram had with the Head of Finance and Marina Head of HR, Bertram proposed the introduction of the concept of a balanced scorecard as an effective tool to measure and propose strategically relevant performance at SFHL. Bertram was very interested to learn about this application from a business colleague of his, who is currently operating a successful business school.

In conclusion at this meeting, Bertram proposed as follows:

I believe we have carried out all the needed preliminary steps to strategize and have also forecasted the financial performance to sufficient depth and details of different divisions, as well as under the respective product groups within them. I now feel the time is ideal for us to apply the balanced scorecard to measure and control the operations across our organization. I wish to invite both Finance and HR to harmoniously consider how we can do this please.”

-End of the scenario II-

Assume you are the Head of Finance of SFHL -Shiva and required to address an initial report to the attention of the Directors of SFHL to clarify certain issues that surfaced during the consulting assignment. This being an internal memorandum, while it is necessary to adopt a report format when presenting your answer, it is not required to include an executive summary that is mostly customary with an external consulting report.

(* Ten percent of the marks allocated for each question will be in respect of systematic and good presentation)

YOU ARE REQUIRED TO:

A) Superfine Anti-aging and Nutritional Division:

i) **Examine and explain** any key macro-environmental force, that currently exists under each of the Economic, Socio-cultural and Demographic categories and therefore can either adversely or favorably impact the market growth in this division.

(12 Marks)

ii) **Recommend** a suitable combination of market segmentation variables that could be applied, when practicing a strategically relevant marketing planning exercise for this division.

(08 Marks)

B) Superfine Quality Bearings Division- Machinery Bearings Product Group:

As advised by DIC under 1 of this unseen, MD Bertram requested you to **present** and **explain** your findings as described per Stage 1 and Stage 2, for this product group

Stage 1 –

(20 Marks)

Stage 2 –

(20 Marks)

(Make any reasonable assumptions, if required)

C) You have been invited to make a presentation to the directorate of SFHL as to how he and Marina propose to implement a balanced scorecard at SFHL. In this connection.

i. With all knowledge you have gained by working with DIC consultants in systematic strategic planning, **evaluate** the approach adopted by SFHL to arrive at the financial forecasts for the divisions of SFHL.

This has been discussed under the relevant section in the page 7 of pre-seen. (Please refer the 'shaded' section of page 7, of the attached pre-seen of this case study.)

(10 Marks)

ii. Propose the steps that SFHL should systematically follow, that will lead to adoption of the 'balanced scorecard' methodology in implementing and controlling strategies across business units.

(15 Marks)

D) Propose and briefly **explain** any three areas of controls that could be useful in strategically controlling the product group - Domestic Pumps, functioning under Superfine FSW Pumps Division.

(15 Marks)

[Total 100 Marks]

ICS May 2023 Examination- Marking Grid					
Evaluation		Weightage	Competency assessment (Marks)		
			High level of application	The middle level of application	Low level of application
Knowledge	Technical knowledge (On Management Accounting, Financial Accounting & Business Management).	30	24-30	8-23	1-7
Application	Application of practical solutions based on the knowledge and skills gained through synthesis, analysis, and calculative practices.	20	16-20	6-15	1-5
Integration	Examine a problem/ issue in a holistic sense through drawing from diverse functional disciplines.	15	12-15	4-11	1-3
Prioritization	Demonstrate a rational, balanced outlook supported with evidence to unearth issues and rank them in the order of priority.	15	12-15	4-11	1-3
Decision	Present viable decisions and implementable recommendations.	10	8-10	4-7	1-3
Presentation	Ability to structure answers clearly and legibly in a most appropriate logical sequence with recommendations and relevant references clearly.	10	8-10	4-7	1-3
TOTAL		100			