INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

New Fall (E) 2011, April 2012 Examinations

Sunday, the 22nd April 2012

MANAGEMENT ACCOUNTING–BUSINESS STRATEGY – (S-603)

STAGE-6

Time Allowed: 2 Hours 45 Minutes **Maximum Marks: 90** **Roll No.:**

(i) Attempt all questions.

(ii) Answers must be neat, relevant and brief.

(iii) In marking the question paper, the examiners take into account clarity of exposition, logic of arguments, effective presentation, language and use of clear diagram/ chart, where appropriate.

(iv) Read the instructions printed inside the top cover of answer script CAREFULLY before attempting the paper.

(v) Use of non-programmable scientific calculators of any model is allowed.

(vi) DO NOT write your Name, Reg. No. or Roll No. anywhere inside the answer script.

(vii) Question No.1 – "Multiple Choice Question" printed separately, is an integral part of this question paper.

(viii) **Question Paper must be returned to invigilator before leaving the examination hall.**

Marks

Q. 2 (a) External opportunities and threats are beyond the control of a single organization. In recent global economic recession various threats are being faced by the business sector though new opportunities are also there. List down some opportunities and threats stating few instances which, at the same time, may be a threat for one and an opportunity for others. **10**

(b) The pace of technological changes is increasing and literally wiping out businesses everyday. This is why consensus holds that technology management is one of the key responsibilities of strategists to achieve sustainable competitive advantages in the marketplace. Explain briefly the role of information technology (IT) in the strategic management. Give examples of industries that are using the wireless technology providing information to their stakeholders effectively. **10**

Q. 3 (a) Organizations struggling to survive may simultaneously employ a combination of several defensive strategies, such as divestiture, liquidation and retrenchment. State guidelines when each of these strategies becomes an effective strategy. **07**

(b) The importance of vision and mission statement in strategic management is well documented. However, research results are mixed in reference to average return on equity and performance. List down the benefits of carefully developing a mission statement as recommended by King and Cleland. **03**

(c) In assessing the external environment, analysis of industry information provides accurate assumptions pointing out major competitive advantages. Enumerate the steps in developing the external factor evaluation (EFE) matrix while carrying out an industry analysis. **06**

Q. 4 (a) Basic organizational activities are called functions of management. How can you relate these functions to the stages of strategic management process? Also mention the task, areas and activities covered under each function of management. **10**

(b) Compare and contrast the financial objectives with strategic objectives of a business entity. What are the benefits of having clear corporate objectives? **10**

PTO

Marks

Q. 5 **(a)** Write down some management issues to be resolved while ‘strategy implementation process’ is started. How establishing the annual objectives are essential for strategy implementation? **10**

(b) What are the various corrective actions that can be taken during ‘strategy evaluation process’? How the anxieties of employees and managers could be satisfied/ dealt with? **09**

Q. 6 Mr. Ismail and family build custom-made pleasure boats with a price range between Rs. 100,000 and Rs. 250,000 per boat. Mr. Ismail determines the selling price of each boat by estimating the costs of material, labour, prorata overheads, and a 20% mark-up on these estimated costs.

A new customer has contacted to buy a boat providing his specifications. Following cost estimate has been prepared accordingly to quote the price of new order:

	Rs.
Direct materials	50,000
Direct labour	80,000
Overhead	20,000
	150,000
Plus 20% mark-up	30,000
Selling price	180,000

The overhead figure was determined by estimating total overheads costs for the year and apportioning them at 25% of direct labour.

If the customer rejected the quoted price and business was slack, Mr. Ismail would often be willing to reduce mark-up to as little as 5% over estimated costs. Thus average mark-up for the year is estimated at 15%.

Mr. Ismail has just completed a training course on pricing and believes that the firm would use some of the techniques discussed in the course. The course emphasised the contribution margin approach to pricing and Mr. Ismail feels such an approach would be helpful in determining the selling price of the company’s custom-made pleasure boats.

Total overheads, which include selling and administrative expenses for the year, had been estimated at Rs. 1,500,000 of which Rs. 900,000 was fixed and the remaining was variable in direct proportion to direct labour.

Required:

(a) Assume that the customer has rejected the quotation of Rs. 180,000 and also rejected the price of Rs. 157,500 (5% mark-up) during a slack period. The customer countered with an offer of Rs. 150,000.

(i) What is the difference in net income for the year between accepting or rejecting the customer’s offer? **07**

(ii) What is the minimum selling price Mr. Ismail could have quoted without reducing or increasing net income? **02**

(b) What advantages would the contribution margin approach to pricing have over the approach used by Mr. Ismail? **03**

(c) What pitfalls are there if any, to contribution margin pricing? **03**

THE END