

# INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN



## Summer (May) 2011 Examinations

Sunday, the 29th May 2011

### 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 after finishing/ writing the exam.**

- |  | <b>Marks</b> |
|--|--------------|
| <p><b>Q. 2 (a)</b> Brief explanations of the terminologies make the concepts clear and help to understand the subject. Give definitions and explain the following key terms used in strategic management in not more than four sentences:</p> <ul style="list-style-type: none"> <li>(i) Competitive advantage</li> <li>(ii) Vision and mission statement</li> <li>(iii) Internal strengths and weaknesses</li> <li>(iv) Strategies</li> <li>(v) Policies</li> </ul> | 10           |
| <p><b>(b)</b> Diversification strategies are becoming less popular as organizations are finding it more difficult to manage diverse business activities. However, diversification is still sometimes an appropriate strategy, especially when the company is competing in an unattractive industry.</p> <p>Considering the above scenario state briefly when related and unrelated diversifications are considered to be the effective strategies.</p>               | 08           |
| <p><b>Q. 3 (a)</b> "The very essence of leadership is that you have to have vision. You can't blow an uncertain trumpet." Briefly describe the importance of vision statement in the light of the quotation of Theodore Hesburgh.</p>  | 03           |
| <p><b>(b)</b> The Competitive Profile Matrix (CPM) identifies a firm's major competitors and its particular strengths and weaknesses. A sample CPM comprising three companies in an industry is given below:</p>   |              |

Critical Success Factors	Weight	Company - 1		Company - 2		Company - 3	
		Rating	Score	Rating	Score	Rating	Score
Advertising	0.20	3	0.60	1	0.20	4	0.80
Product quality	0.10	2	0.20	4	0.40	3	0.30
Price competitiveness	0.10	4	0.40	3	0.30	2	0.20
Management	0.10	3	0.30	4	0.40	3	0.30
Financial position	0.15	3	0.45	4	0.60	2	0.30
Customer loyalty	0.10	2	0.20	4	0.40	3	0.30
Global expansion	0.20	2	0.40	4	0.80	1	0.20
Market share	0.05	3	0.15	1	0.05	4	0.20
Total	1.00		2.70		3.15		2.60

PTO

	Marks
<b>Required:</b>	
(i) Indicate most important critical success factors for a successful company in the industry.	02
(ii) Identify the strength(s) of each company.	03
(iii) List down other factors that can be considered in CPM analysis.	02
<b>(c)</b> Important functional areas are examined to evaluate the strengths and weaknesses of each function for strategic decisions. Among various analyses, opportunity analysis is also carried out while evaluating the strengths and weaknesses of marketing function. In the context of this scenario:	
(i) Briefly describe three (3) steps of opportunity (cost-benefit) analysis and state when does opportunity become attractive.	04
(ii) Write down the important questions that should be included in marketing audit checklist.	05
<b>Q. 4 (a)</b> There are many stages in a comprehensive strategy formulation framework. State and describe these stages briefly indicating (stage wise) the tools and techniques used in each stage.	12
<b>(b)</b> Strategy formulation concepts and tools are equally applicable to small, large, manufacturing or service and governmental organizations. However, strategy implementation varies substantially among these organizations and it is more difficult to do than to say that you are going to do. Elaborate the differences between strategy formulation and strategy implementation processes.	05
<b>Q. 5 (a)</b> How can an organization's reward system be more closely linked to strategic performance? How can decisions on salary increase, promotions, merit pay and bonuses be more closely aligned to support the long-term strategic objectives of an organization? To answer these questions mention five tests that are often used to determine usefulness of a performance-pay plan.	05
<b>(b)</b> The work-family issue in Pakistan is gaining attention due to ever increasing female work force in recent past. While, good home life contributes immensely to a good work life. Do you think balancing work life and home life is considered important for strategic decisions? Explain with examples the facilities offered for this purpose.	05
<b>(c)</b> Now a days undertaking strategy evaluation has become a bit difficult task as compared with past because of faster technological changes, more competition, shorter product life cycle, and frequent changes in regulations etc. Discuss other reasons why strategy evaluation is becoming more difficult now than in recent past.	06
<b>Q. 6</b> Five Star departmental stores has recently received the findings of a survey that suggest that potential sales are being lost because many customers dislike having to use the elevator (lift) in the store and prefer to go across the street to a competitor - Moon Store which has an escalator. Consequently, Five Star is considering the replacement of the elevator (lift) with a new escalator. The elevator (lift) was purchased ten years ago for Rs.560,000 and depreciated to a salvage value of Rs.160,000 ten (10) years from now on the basis of straight-line basis. It can be sold today for Rs.320,000.  The escalator can be purchased for Rs.1,200,000 and would be depreciated using straight-line basis to a salvage value of Rs.400,000 in ten years. In addition, Five Star anticipates that having an escalator rather than an elevator (lift) will increase operating income from sales by Rs.80,000 annually and decrease operating expenses by Rs.20,000 annually. Income tax rate of Five Star is 25%.	

**Required:**

- (a) Calculate the present book value of the elevator (lift). 02
- (b) Calculate initial cash out flow associated with the replacement of the elevator (lift). Be sure to include any required changes in working capital. 02
- (c) Work out incremental changes in annual cash flow, if they replaced the elevator (lift). 03
- (d) Calculate pay back period for the replacement decision. 01
- (e) What is the replacement decision, if Five Star uses discounting rate of 12% for calculating net present value (NPV) and profitability index (PI)? 04
- (f) What is the replacement decision, if Five Star uses discounting rate of 16% for calculating net present value (NPV) and profitability index (PI)? 02
- (g) Calculate internal rate of return (IRR) of the replacement decision. 04
- (h) Is the replacement proposal acceptable? Discuss qualitative factors in case of not accepting the proposal when Five Star's required rate of return is 10%. 02

**THE END**

PRESENT VALUE FACTORS														
Year	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	17%	18%
1	0.952	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847
2	0.907	0.890	0.873	0.857	0.842	0.826	0.812	0.797	0.783	0.769	0.756	0.743	0.731	0.718
3	0.864	0.840	0.816	0.794	0.772	0.751	0.731	0.712	0.693	0.675	0.658	0.641	0.624	0.609
4	0.823	0.792	0.763	0.735	0.708	0.683	0.659	0.636	0.613	0.592	0.572	0.552	0.534	0.516
5	0.784	0.747	0.713	0.681	0.650	0.621	0.593	0.567	0.543	0.519	0.497	0.476	0.456	0.437
6	0.746	0.705	0.666	0.630	0.596	0.564	0.535	0.507	0.480	0.456	0.432	0.410	0.390	0.370
7	0.711	0.665	0.623	0.583	0.547	0.513	0.482	0.452	0.425	0.400	0.376	0.354	0.333	0.314
8	0.677	0.627	0.582	0.540	0.502	0.467	0.434	0.404	0.376	0.351	0.327	0.305	0.285	0.266
9	0.645	0.592	0.544	0.500	0.460	0.424	0.391	0.361	0.333	0.308	0.284	0.263	0.243	0.225
10	0.614	0.558	0.508	0.463	0.422	0.386	0.352	0.322	0.295	0.270	0.247	0.227	0.208	0.191

CUMULATIVE PRESENT VALUE FACTORS														
Year	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	17%	18%
1	0.952	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847
2	1.859	1.833	1.808	1.783	1.759	1.736	1.713	1.690	1.668	1.647	1.626	1.605	1.585	1.566
3	2.723	2.673	2.624	2.577	2.531	2.487	2.444	2.402	2.361	2.322	2.283	2.246	2.210	2.174
4	3.546	3.465	3.387	3.312	3.240	3.170	3.102	3.037	2.974	2.914	2.855	2.798	2.743	2.690
5	4.329	4.212	4.100	3.993	3.890	3.791	3.696	3.605	3.517	3.433	3.352	3.274	3.199	3.127
6	5.076	4.917	4.767	4.623	4.486	4.355	4.231	4.111	3.998	3.889	3.784	3.685	3.589	3.498
7	5.786	5.582	5.389	5.206	5.033	4.868	4.712	4.564	4.423	4.288	4.160	4.039	3.922	3.812
8	6.463	6.210	5.971	5.747	5.535	5.335	5.146	4.968	4.799	4.639	4.487	4.344	4.207	4.078
9	7.108	6.802	6.515	6.247	5.995	5.759	5.537	5.328	5.132	4.946	4.772	4.607	4.451	4.303
10	7.722	7.360	7.024	6.710	6.418	6.145	5.889	5.650	5.426	5.216	5.019	4.833	4.659	4.494