INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

SPRING (SUMMER) 2008 EXAMINATIONS

Wednesday, the 21st May, 2008

MANAGEMENT ACCOUNTING-BUSINESS STRATEGY – (S-603)

Stage- 6

Time Allowed – 2 Hours 45 Minutes | Maximum Marks – 90

(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 on 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.

Marks

Q. 2 **(a)** The Managing Director of M/s. ABC Limited, a small and medium enterprise (SME), has heard about strategic management. He needs your help for understanding the strategic management process for (SME).

Required:

Draft a letter to Managing Director explaining four stages of strategic management process for SME. 10

(b) As a part of strategic decision making for realizing growth, a company is confronted with a choice of internal growth or growth through acquisition or merger. Explain the above-mentioned two strategies and describe as to which choice is to be made and is the best under what circumstances. 10

Q. 3 Competitive advantage is anything which gives the organization an edge over its rivals. List out and briefly discuss the five generic competitive strategies adopted by organizations. 20

PTO

Marks

Q. 4 An increasing number of companies have expressed their willingness to consider their wider social responsibilities. This often involves them in voluntarily undertaking extra responsibilities and costs, for instance:

- In order to reduce pollution, companies may decide to treat waste products to a higher standard than required by legislation;
- They may decline to trade with countries whose governments they find objectionable;
- They may pay wages above national minimum levels.

Required:

Discuss the extent to which it is feasible for a company to put into action its social responsibility aspirations, that is, whether it is possible to bring these consideration into strategic decision making in a programmed or systematic way. 10

Q. 5 Describe the steps that a company will normally have to follow in order to develop strategic financial plan. 20

Q. 6 Fauji Ltd. is a power generating company. The company has historically generated the majority of its electricity using Hyderal resources, but as a result of depleted Hyderal resources, is now considering new types of power stations to invest in. The alternatives are a gas fuelled power station, or an efficient nuclear power station.

Both types of power stations are expected to generate annual revenue at current prices of Rs.800 million. The expected operating life of both types of power stations is 25 years.

Below are the Financial Estimates:	**Rupees in Million**	
	GAS	**NUCLEAR**
Building costs	600	3300
Annual running cost (at current price)		
Labour costs	75	20
Gas purchases	500	–
Nuclear fuel purchases	–	10
Customer relations	5	20
Sales and marketing expenses	40	40
Interest expenses	51	330
Other cash outlays	5	25
Accounting depreciation (straight line method)	24	132

Other information:

Whichever power station is selected, electricity generation is scheduled to commence in three year’s time.

- If gas is used, most of the workers at the existing Hyderal station can be transferred to new power station.

Marks

- After tax redundancy costs are expected to total Rs.4 million in year four. If nuclear power is selected fewer workers will be required and after tax redundancy costs will total Rs.36 million, also in year four.
- The real cost of capital after tax for the gas power station will be 6% and for the nuclear power station 8%, reflecting slightly different risk and reward requirements.
- Costs of building the new power stations would be payable in two equal installments in one and two years' time.
- The existing hyderal power station would need to be demolished at a cost of Rs.10 million after tax in three years' time.
- Corporate tax rate is 30% payable in the same year when the liability arises.
- Tax depreciation is at the rate of 10% per year on a straight line basis.
- At the end of 25 years of operations, the gas plant is expected to cost Rs.25 million (after tax) to demolish and clean up the site. Costs of demolishing the nuclear plant are much less certain, and could be anything between Rs.500 million and Rs.1000 million (after tax) depending upon what kind of disposal is available for nuclear waste.

Required:

Estimate the expected NPV of each of the above investment in a gas fuelled power station and in nuclear fuelled power station respectively and advise the management which project is more viable. 20

Note: (Take PV Factors upto 3 decimal places).

PV Factor of Re. 1

Year	6%	Year	6%	Year	6%	Year	6%
1	0.943	**8**	0.627	**15**	0.417	**22**	0.278
2	0.890	**9**	0.592	**16**	0.394	**23**	0.262
3	0.840	**10**	0.558	**17**	0.371	**24**	0.247
4	0.792	**11**	0.527	**18**	0.350	**25**	0.233
5	0.747	**12**	0.497	**19**	0.331	**26**	0.220
6	0.705	**13**	0.469	**20**	0.312	**27**	0.207
7	0.665	**14**	0.442	**21**	0.294	**28**	0.196

Year	8%	Year	8%	Year	8%	Year	8%
1	0.926	**8**	0.540	**15**	0.315	**22**	0.184
2	0.857	**9**	0.500	**16**	0.292	**23**	0.170
3	0.794	**10**	0.463	**17**	0.270	**24**	0.158
4	0.735	**11**	0.429	**18**	0.250	**25**	0.146
5	0.681	**12**	0.397	**19**	0.232	**26**	0.135
6	0.630	**13**	0.368	**20**	0.215	**27**	0.125
7	0.583	**14**	0.340	**21**	0.199	**28**	0.116

THE END