ICMA INTERNATIONAL
lead strategically

MODEL PAPER

PRACTICAL INDUSTRY KNOWLEDGE (PIK) EXAMINATION

[COMPUTER BASED EXAMINATIONS]

Strategic Management Accounting
[Strategic Level-2]

TIME ALLOWED: 03 HOURS | MAXIMUM MARKS: 100

Effective from December 2025 Examinations

EXAMINATION DEPARTMENT

MULTIPLE CHOICE QUESTIONS (MCQs)

Question No.1

A division has very high EVA one year but low customer satisfaction and high employee turnover. What does this indicate? **[04 Marks]**

A	EVA captures all aspects of performance
B	Financial performance is strong, but nonfinancial performance is weak
C	EVA automatically improves customer satisfaction
D	Cost of capital is too high

Question No.2

In a bank, customer feedback shows declining satisfaction due to slow service. The Balanced Scorecard internal process KPIs show longer processing times. What action is most appropriate? **[04 Marks]**

A	Increase service charges
B	Improve process automation and staff training
C	Reduce the number of service counters
D	Increase ATM fees

Question No.3

A company plans to launch a new smart kettle. Market research suggests customers will pay Rs.4,000. The firm requires a 25% profit margin on selling price. Estimated current cost is Rs.3,300. What is the target cost gap? **[04 Marks]**

A	Rs.200
B	Rs.300
C	Rs.500
D	Rs.1,300

Question No.4

A product has these costs over its life:

- R&D: Rs.**3,000,000**
- Production: Rs. **12,000,000**
- Marketing: Rs. **4,000,000**
- Warranty & disposal: Rs. **1,000,000**

Expected units: **250,000**

What is the **life-cycle cost per unit**? **[04 Marks]**

A	Rs. 60
B	Rs. 75
C	Rs. 80
D	Rs. 85

Question No.5

Division X manufactures a part having variable cost Rs. 40 and fixed cost Rs. 30 (avoidable Rs. 10). Supplier offers same part at Rs. 55 per unit. Which option is cheaper? **[04 Marks]**

A	Make by Rs. 5 per unit
B	Buy by Rs. 5 per unit
C	Make by Rs. 15 per unit
D	Buy by Rs. 15 per unit

[Note: The questions made available through this Model Paper reflects the pattern of questions to be tested in exams.]

Question No.6

Division A makes a component having following details:

- Variable cost Rs. 60
- Fixed avoidable Rs. 20.
- Market price = Rs. 120.

Division B wants component. A has spare capacity.

What is the minimum transfer price? **[04 Marks]**

A	Rs. 60
B	Rs. 80
C	Rs. 120
D	Rs. 100

Question No.7

Division Y of Glassdoor Limited earns a profit of Rs. 1,800,000. The division has invested capital of Rs. 10,000,000. The required return is 10%. Determine the Residual Income (RI). **[04 Marks]**

A	Rs. 800,000
B	Rs. 900,000
C	Rs. 1,000,000
D	Rs. 1,200,000

Question No.8

Division Z – Bayan Limited

- **Operating Profit:** Rs. 60.3 Million (after charging Rs. 10 Million full cost of a new product launch expected to last 5 years)
- **Risk-adjusted Cost of Capital:** 15%
- **Historical Cost of Assets:** Rs. 150 Million
- **Estimated Replacement Cost of Assets:** Rs. 258 Million

Calculate the **Economic Value Added (EVA)** of Division Z. **[04 Marks]**

A	Rs. 29.6 Million
B	Rs. 30.4 Million
C	Rs. 28.4 Million
D	Rs. 31.6 Million

Question No.9

Sehra Limited's Product R has a maximum potential demand of 150,000 units. The company observes that for every Re. 1 increase in the selling price, the demand decreases by 50 units. Analysis shows that profit is maximized when sales volume reaches 63,000 units per year. Determine the profit-maximizing selling price per unit for Product R. **[04 Marks]**

A	1,300
B	1,550
C	1,600
D	1,740

Question No.10

Farooq Limited (FL) produces two products, **A** and **B**, with the following details:

- **Contribution per unit:** A = Rs. 600, B = Rs. 900
- **Budgeted sales ratio:** 2 units of A for every 1 unit of B

- **Fixed costs per period:** Rs. 2,800,000
- **Production capacity:** 4,000 units of A and 2,000 units of B

Calculate the **break-even point** for Farooq Limited. **[04 Marks]**

A	55.00% capacity
B	66.66% capacity
C	822 units of A and 561 units of B
D	75.00% capacity

CASE STUDY

Case Study: 1

Falcon Manufacturing produces small household electronic devices. In recent months, the company has experienced a significant increase in internal failures, including rework, scrap, and machine downtime. Quality reports show that nearly 10 percent of units fail the final inspection due to assembly mistakes and poor component fit. Additionally, external failures are rising as customer complaints and warranty claims have increased by 20 percent, mostly linked to a faulty switch supplied by a long-term vendor. The warehouse is also overloaded with excess raw material inventory because production continues even when demand is slow. This has increased storage cost and caused material deterioration. A recent internal audit highlighted that the company spends heavily on testing and inspection but very little on prevention activities such as worker training, supplier evaluation, and process improvement.

Requirements: **[15 Marks]**

Question No. 1

Identify which categories of cost of quality are increasing.

Question No. 2

Recommend practical actions to reduce internal failure costs.

Question No.3

Suggest how TQM principles can be applied to reduce customer complaints.

Case Study: 2

Crystal Plastics manufactures three plastic components: CP1, CP2, and CP3. Due to a temporary shortage of machine hours, the company cannot produce all products at their usual levels. The production manager informs that only 4,000 machine hours are available this month. The contribution per unit is Rs. 120 for CP1, Rs. 150 for CP2, and Rs. 90 for CP3. The machine hours required per unit are 2 hours for CP1, 3 hours for CP2, and 1 hour for CP3.

At the same time, the company receives a special order for 1,500 units of CP1 at a price below regular selling price. The variable cost of CP1 is Rs. 300 per unit, and the special order price is Rs. 340 per unit. The order will not affect normal sales and requires no additional fixed cost.

Additionally, the purchasing department reports a make or buy option for CP3 components. The internal relevant cost for producing one unit is Rs. 110, including Rs. 20 avoidable fixed cost. A supplier is willing to sell the component for Rs. 130 per unit.

Management wants to make short term decisions that maximize contribution under limited capacity, special order pricing, and make or buy considerations.

Requirements: **[15 Marks]**

Question No.1

Identify which product should be prioritized for production under limited machine hours.

Question No. 2

Decide whether the special order for CP1 should be accepted.

Question No. 3

Evaluate whether CP3 should be made internally or bought from the supplier.

Scenario Based Question-1:

Part: (a)

The quality manager observes that the company spends heavily on product testing but very little on employee training. Defects remain high. What should be recommended? **[05 Marks]**

A. Reduce testing and increase inventory
B. Increase prevention efforts such as training and process design
C. Remove the testing department
D. Increase advertising

Part: (b)

A supplier offers to supply a component at Rs. 140 per unit. If produced internally, the variable cost is Rs. 110 per unit and avoidable fixed cost is Rs. 15 per unit. The remaining fixed costs cannot be avoided. What is the relevant decision? **[05 Marks]**

A. Buy the component because the supplier price is lower
B. Make the component internally because relevant cost is lower
C. Consider only total manufacturing cost including unavoidable fixed cost
D. Delay the decision until next year

Part: (c)

A manager is preparing a sensitivity analysis for a product. Current profit is Rs. 300,000, but profit is highly sensitive to changes in raw material cost. If material cost increases by 10 percent, profit drops to Rs. 200,000. What should the manager conclude? **[05 Marks]**

A. Material cost has minimal impact
B. The project should be stopped immediately
C. Material cost is a key variable and must be monitored closely
D. Profit will remain constant regardless of cost changes

Scenario Based Question-2:

Part: (a)

A company sells Product A and Product B. Product A has a high contribution but slow demand. Product B has lower contribution but very high demand and faster turnover. The company has limited warehouse space. What is the best operational decision? **[05 Marks]**

A. Focus more on Product B because limited space should support faster-moving items
B. Produce only Product A because it has higher margin
C. Reduce sales of Product B
D. Expand warehouse before deciding

Part: (b)

A company is evaluating divisions. Division A has high ROI but uses very old equipment requiring frequent repairs. Division B has lower ROI but recently invested in modern machinery. Which statement is correct? **[05 Marks]**

A. ROI alone may give misleading performance results
B. Division A is always better
C. Division B is performing poorly
D. ROI reflects asset age accurately

Part: (c)

A manufacturing firm sees that machine downtime is increasing, affecting both internal processes and financial performance. What practical measure should management take?

[05 Marks]

A. Increase advertising expenditure
B. Implement a preventive maintenance program with weekly checks
C. Ignore downtime since sales are stable
D. Remove downtime KPI from the scorecard

THE END

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