

INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN



Spring (August) 2012 Examinations

Monday, the 3rd September 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) Hundreds of organizations today have adopted strategic planning fully in their search for higher/ maximum returns. There are numerous strategies at work that have been deployed to achieve these objectives. There are three distinct strategies collectively known as 'Intensive Strategies'. Elaborate each of them.	10
(b) Illustrate the Strategic– Management Model.	10
Q. 3 (a) Strategists consider numerous factors while assessing external environment. Social, cultural, demographic and environmental changes have a major impact on virtually all products, services, markets and customers. Discuss some of the vital aspects and variables of these forces.	10
(b) Strategists strive to preserve, emphasize and build upon aspects of an existing culture that support proposed new strategies. List out some of the elements that are most useful in linking culture to strategy.	10
Q. 4 (a) An important strategic management activity is measuring organization performance. Explain the activity identifying some key financial ratios, their purposes and significance.	05
(b) Implementing strategy affects an organization from top to bottom; it affects all the functional and divisional areas of a business. Changes in a firm's strategic directions do not occur instantly. Policies are needed to make a strategy work on daily basis. Identify the hierarchy of policies and some of the issues that may require a management policy.	10
Q. 5 (a) Explain why EPS/ EBIT analysis is a central strategy–implementation technique? Also discuss their limitations.	09
(b) Identify eight key questions that revised external factor evaluation (EFE) matrix pose to strategists.	06

- Q. 6** Premier Limited manufactures and sells a range of consumer durable appliances. It ensures after sales service through Kaghan Limited. The big appliances are serviced at customer's residence while small appliances are serviced at workshop of Kaghan Limited.

The material supplied to Kaghan Limited is charged at cost + 10%, Kaghan Limited charges from customers at 25% over this price. For labour, the manufacturing company receives 10% of the rate fixed for work done under the after-sales service agreement and 15% of the rate fixed in case of jobs not covered under the agreement from Kaghan Limited. 60% by value of the total work undertaken by Kaghan Limited was for big appliances and rest accounted for small appliances during the previous year.

The company now decided to carry out all or some of the work itself initially in the southern region. During the previous year the manufacturing company earned a profit of Rs. 648,000 as detailed below from the services provided by Kaghan Limited in southern region:

	Rupees	
	Material	Labour
Under after-sales service agreement	180,000	300,000
For jobs not covered under the agreement	60,000	108,000

The manufacturing company forecasts same volume of work in that region for the ensuing period. The following three options are under consideration of the management:

- Option-1:** To set up a local service centre to provide service for small appliances only. The existing system is to continue for big appliances.
- Option-2:** To set up a local service to provide service for big appliances only. The existing system is to continue for small appliances.
- Option-3:** To set up a local service centre to provide service to all appliances. The existing system then stands withdrawn.

The relevant costs for carrying out jobs under the above options are as under:

	Rs. '000'		
	Option-1	Option-2	Option-3
Heat, rent, light etc.	375	150	450
Management costs	324	249	450
Service staff costs	690	1,320	2,250
Transport costs	75	660	690

Required:

Indicate most profitable option preparing the following statements of:

- (i) work done by Kaghan Limited for previous year in southern region. (Hint: total amount billed to customers by Kaghan Limited = work done) **08**
- (ii) profitability under three options (3-column), indicating the best option. **12**
(Show all your working clearly)

THE END