FINAL EXAMINATION

December 2013

F–P13(MSM)

Syllabus 2008

Management Accounting—Strategic Management

Time Allowed: 3 Hours

Full Marks: 100

SECTION-I (60 Marks)

(**Strategic Management**)

Answer Question No. 1 *and* any other two *from the rest in this section.*
(Please answer all parts of a question at one place.)

1\. (a) In each of the cases/statements given below, one of four/five alternatives is correct. Indicate the correct answer: 1×10

(i) "Marketing mix" is a general phrase used to describe the different kinds of choices organisation's have to make in the whole process of bringing a product or service to market. The 4Ps is one way—probably the best-known way—of defining the marketing mix, and was first expressed in 1960 by

(A) Boom and Bitner

(B) Lauterborn

(C) Borden

(D) McCarthy

(ii) The role of leadership can be best evaluated by looking at

(A) Mission

(B) Strategy

(C) Communication

(D) Succession planning

(E) All of the above

(iii) For an Entrepreneur

(A) Vision is before the mission

(B) Mission is before the vision

(C) Both are developed simultaneously

(D) Profitability is most crucial

(E) Vision or mission is an unimportant issue

(iv) The BCG growth matrix is based on the two dimensions

(A) Market size and market share

(B) Market size and profit margins

(C) Market size and competitive intensity

(D) Market size and market competition

(E) Market growth and market share

(v) Sharing investment is one of the basic motive of

(A) Strategic alliances

(B) Joint ventures

(C) Conglomerate acquisition

(D) Vertical merger

Please Turn Over

(vi) 'Marketing Research' studies are undertaken
(A) To measure brand loyalty of a class of consumers
(B) To predict market potential of a product on a future date
(C) To understand product-price relationship
(D) All of the above

(vii) The pricing strategy in which the seller has an obligation to deliver goods to a named place for transfer to a carrier known as
(A) Zone delivered pricing
(B) FOB pricing
(C) Point of production pricing
(D) Freight absorption pricing
(E) Uniform delivered pricing

(viii) ABC Corporation has a cost of capital of 10% but that the company has undertaken too many projects, many of which are incomplete. This causes the company's actual return on investment to drop well below the 10% level. As a result, management decided to place a cap on the number of new projects by raising the cost of capital for these new projects to 15%. This is an example of
(A) Capital asset strategy
(B) Insurance strategy
(C) Capital rationing
(D) Target costing
(E) Process costing

(ix) Which one of the following is not a measure related to BSC?
(A) Financial
(B) Customer Satisfaction
(C) Innovation
(D) Gap Analysis

(x) The minimum cash balance is Rs. 20,000 is required at Miller-Orr Co., and transferring money to or from the bank costs Rs. 50 per transaction. Inspection of daily cash flows over the past year suggests that the Standard Deviation is Rs. 3,000 per day, and hence the variance (Standard Deviation squared) is Rs. 90 lakhs. The interest rate is 0·03% per day on marketable securities. So the spread between the upper and lower limits under 'Stochastic Model' is
(A) Rs. 31,200
(B) Rs. 31,100
(C) Rs. 31,300
(D) Rs. 31,000

(b) State whether the following statements, based on the quoted terms, are *'TRUE' or 'FALSE' with justifications for your answer*. If any statement is false, you are required to give the correct terms, duly quoted. *No credit will be given for any answer without justification.* 1×5

(i) 'Merger' is the purchase of controlling interest of another company.
(ii) 'CVP model' is a simple 'Break-Even model'.
(iii) 'Time Value' refers to the difference between the market value of an option and its intrinsic value.
(iv) ABC Ltd. is engaged in sale of footballs. Its cost per order is Rs. 400 and its carrying cost unit is Rs. 10 per unit per annum. The company has a demand for 20,000 units per year. EOQ for the company is 1,300 units.
(v) A 'Cost-Plus' policy can lead to inflexibility in a firm's pricing decisions.

(c) Define the following terms (in not more than two sentences): 1×5
   (i) PALTO
   (ii) Barriers to entry
   (iii) Non-price competition
   (iv) Societal Marketing
   (v) Going-rate pricing method

2. (a) What are the 'Corporate Strategy Components'?
   (b) State in brief the key 'Issues' of it.
   (c) How these corporate strategy components help top management to integrate vision, mission and guiding principles for gap analysis?
   (d) Tata Steel's mega takeover of European steel major Corus Company is $12·2 billion, the biggest ever for an Indian company. This is first big business transaction which marked the arrival of Indian Inc on the global stage. Which one amongst four components of growth gap can be filled by Tata Steel in this accusation?
   $2\frac{1}{2}+7\frac{1}{2}+5+5$

3. (a) A leading steel manufacturing company in Western Maharashtra has one soaking pit at Blooming Mill to roll 4/5 metric tons of ingots. At present they are rolling 750 metric tons of ingots per month. The productivity was low and the fuel consumption was high in the soaking pit during the initial stages of production. Series of actions were taken to increase productivity and reduce the fuel consumption by introducing facilities to charge ingots in hot conditions (i.e. 750-800 degrees celsius). With these facilities in place the fuel cost is reduced and the production has increased by 50%. For reducing fuel costs, the technique of standard costing was followed and per week reporting of actual consumption as against the standard was introduced. This shows impressive results. In view of the growing demand for rolled products, the company has also decided to install additional equipments in the form of soaking pit with eight cells and all auxiliary equipments, which will cost the company Rs. 33 million. However, the cost reduction per month would be to the tune of Rs. 1·10 million and the payback period will be 3 years 9 months.

   State the five stages strategic management framework with reference to the above case.
   (b) What challenges in long term commitment the companies faces while entering into rural emerging markets in designing a marketing channel strategy that meets the needs of rural customers?
   (c) What do you understand by the term 'Product Line'? Give an example.
   (d) Why sometimes new products fail? Give five basic reasons.
   (e) What techniques you will follow to fill the 'New Product Planning Gap'. (1×5)+(1×5)+(2+1)+5+(1×2)

4. (a) The 'Product Life Cycle (PLC)' hypothesis is a powerful integrated tool for any industry. State the various stages defined in three popular models, namely:
   Porter's Generic Strategy;
   Ansoff's Matrix; and
   BCG Matrix.
   (b) How does 'Market Research' help a management accountant to gain strategic cost advantage for a firm?
   (c) Write a short note on 'Activity Based Cost-Management (ABM)'. (3×3)+6+5

SECTION-II (40 Marks)
(Risk Management)

Answer Question No. 5 *and* any other two *from the rest in this section.*
(Please answer all parts of the question at one place.)

5. (a) In each of the cases/statements given below, one of four/five alternatives is correct. Indicate the correct answer: 1×5

(i) When risk is perceived and not transferred/recognised/reduced is actually known as
(A) Risk retention
(B) Risk reduction
(C) Risk transfer
(D) Risk sharing

(ii) Unsystematic risk relates to
(A) Market risk
(B) Beta (β)
(C) Inherent risk
(D) Inflation risk

(iii) 'Building block' approach related to asset-liability model refers to successive levels in an organisation. The levels are
(A) Standalone risks within a single risk factor are accumulated (Ex. Credit risk)
(B) Accumulation of risks arising out of defferent risk factors within a single business area (Ex. Combining the assets, liabilities and operating risks in companies operations)
(C) At this level risks across all the business lines in a corporate are aggregated together
(D) All of the above
(E) Both (A) and (C)

(iv) Solvency related risk measures do not include
(A) Probability of ruin
(B) Short-fall risk
(C) Value at risk
(D) Return on equity
(E) Tail value at risk

(v) Often analysts focus on characteristics of loss distributions, such as
(A) Expected loss
(B) Standard Deviation of loss
(C) Maximum probable loss
(D) Both (B) and (C)
(E) All of the above

(b) State whether the following statements, based on the quoted terms, are *'TRUE' or 'FALSE' with justifications for your answer.* If any statement is false, you are required to give the correct terms, duly quoted. *No credit will be given for any answer without justification:* 1×5

(i) 'Purchasing Power Risk' is the uncertainty of the purchasing power of the monies to be received, in the future.
(ii) Hedging involves the transfer of pure risk.
(iii) 'Act liability only' is a life insurance cover available through life insurance policy.

(iv) Future contracts have built-in safeguard against default risk, in the form of stock brokers or a clearing house guarantee.

(v) The Turnbull guidance as an evolution framework for the purposes of the Sarbanes-Oxley Act is mandatory requirements related to the risk management and internal control.

6. (a) With the passage of IRDA bill, India has been set for the entry of new players in the insurance field. However, even before their formal entry, a few international insurance majors have been instrumental in setting up risk management companies. How risk management is different from insurance?

   (b) Differentiate forward contracts from future contracts.

   (c) What is meant by the term 'Profit Loading'? 5+5+5

7. (a) What is meant by 'Incurred-But-Not-Reported Reserve (IBNR)'? Enumerate one suitable example.

   (b) In India asset-liability mismatch in balance sheet of commercial banks posed serious challenges as the banks were following the traditional methods of recording assets and liabilities at the book values. As a CMA how would you advise banks for taking appropriate steps in minimising the mismatch in the asset-liability composition?

   (c) What do you understand by 'Pure Risk'? What are the major types of 'Pure Risk' which affect the business? State in brief the different methods of managing 'Pure Risk'. 4+5+(1+2+3)

8. Write answers *any 3 (three)* from the following: 5×3

   (a) 'Knock-for-Knock' Agreement.

   (b) Arbitrage Pricing Theory (APT).

   (c) Risk Mapping or Profiling.

   (d) Risk Assessment Techniques.