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Strategic Case Study Exam 2021

Cima CS3

Version Demo

Total Demo Questions: 11

Total Premium Questions: 114

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Topic Break Down

Topic	No. of Questions
Topic 1, E3 - Strategic Management	30
Topic 2, P3 - Risk Management	11
Topic 3, F3 - Financial Strategy	17
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QUESTION NO: 1

A company has experienced repeated cyber-security incidents caused by employees responding to fraudulent emails. The board wants an indicator that provides early warning of whether the risk is increasing.

Which measure would be the most suitable key risk indicator?

A. The proportion of employees failing simulated phishing tests.

B. The total revenue reported for the year.

C. The depreciation charge on information technology assets.

D. The number of annual general meeting votes cast.

ANSWER: A

Explanation:

The proportion of employees who fail simulated phishing tests is a forward-looking measure of staff susceptibility to phishing attacks. It can identify deteriorating control effectiveness before a significant incident occurs.

QUESTION NO: 2

A company has entered into a long-term contract to supply a customer with specialised equipment. The customer will pay a substantial advance before production begins.

How should the advance payment initially be reported in the supplier's statement of financial position?

A. As a contract liability.

B. As revenue.

C. As a trade receivable.

D. As a provision.

ANSWER: A

Explanation:

Before the supplier has transferred the promised goods or services, an advance received from a customer represents an obligation to perform. It is therefore recognised initially as a contract liability rather than revenue.

QUESTION NO: 3

A listed entity is preparing its annual report. The finance director proposes omitting information about a material environmental lawsuit because the outcome remains uncertain and disclosure may damage investor confidence.

What is the most appropriate response by the finance function?

A. Omit the matter until a court judgment is issued

B. Disclose the matter appropriately, including the uncertainty and potential financial effect where practicable

C. Record the maximum possible settlement as an expense regardless of probability

D. Disclose the matter only to institutional shareholders

ANSWER: B

Explanation:

Material uncertainties and contingencies must be considered for appropriate disclosure under the applicable financial reporting requirements. Omitting material information to influence investors would undermine faithful representation and transparency.

QUESTION NO: 4

A company is considering entering a new market through a joint venture with a local business. The proposed partner has strong distribution capabilities but has different priorities regarding product quality and investment levels.

Which issue should be addressed most clearly in the joint venture agreement?

A. Governance, decision-making and dispute-resolution arrangements.

B. The partners' historical share-price movements.

C. The personal preferences of operational managers.

D. The joint venture's first-year advertising slogan.

ANSWER: A

Explanation:

Differences in strategic priorities can cause significant conflict in a joint venture. The agreement should clearly establish governance arrangements, decision rights, funding obligations and mechanisms for resolving disputes or exiting the arrangement.

QUESTION NO: 5 - (SIMULATION)

Six months have passed since you briefed William Seaton, Director of Finance on the relationship between Slide and Fouce Oil.

You have been called into William Seaton's office:

"We had a visit from the Chief Executive Officer of Fouce Oil yesterday. We had not received any prior notice of the purpose of the visit and assumed that he simply wished to make a courtesy call while he was visiting Fouce Oil's subsidiary in this country. Instead, he came to initiate discussions over a strategy of collaboration on oil exploration.

Rather than explain things myself, please read the memorandum of understanding that he has asked us to sign. It is self-explanatory.

Once you have read the memorandum, I would like you to email me your thoughts on the following:

?The suitability of this proposal for Slide.

?The likelihood that Fouce Oil's strategic interests will clash with our own.

?The strategic risks that are likely to arise because of this arrangement.

?The manner in which this strategic relationship should be communicated to the stock market.

I realise that this is a challenging request, but I need your response quickly because we need to respond to Fouce Oil."

The Memorandum of Understanding can be found by clicking on the Reference Materials button.

ANSWER: See the explanation for the answer

Explanation:

To: William Seaton, Director of Finance
Subject: Fouce Oil proposed exploration collaboration

Overall view. The proposal could be strategically attractive for Slide, but I would not recommend signing the memorandum in its present form without due diligence and a detailed, legally binding joint-operating/joint-venture agreement. It should be treated as a possible route to share the exceptionally high cost and uncertainty of exploration, rather than as a commitment to give Fouce Oil access to Slide's assets, data or future discoveries on terms that have not been negotiated.

Suitability for Slide.

Collaboration can give Slide access to Fouce Oil's funding capacity, technical expertise, equipment, international exploration experience and possibly its local subsidiary's infrastructure and relationships.
It would diversify and share the geological, operational and financial risk of exploration. This may allow Slide to undertake prospects that it could not prudently finance alone, while retaining an interest in any successful discovery.
A credible larger partner may improve the ability to obtain finance and regulatory support. It may also accelerate exploration and development.
However, Slide must not sacrifice its independence or the economic value of its prospects merely because it needs a partner. The arrangement is suitable only if Slide retains an appropriate participating interest, receives value for any data/licences it contributes, and has meaningful control over key decisions.

Potential conflict of strategic interests.

Fouce is likely to seek additions to its reserves, control over attractive acreage and commercial returns for itself. Slide's objective is to maximise the value of its own licences and grow as an independent oil business. Those objectives coincide initially, but may diverge after a discovery.
Fouce may prefer to direct capital, rigs, technical staff and export/infrastructure capacity to its own fields or subsidiary. It could delay, deprioritise or influence the development of a Slide opportunity where this benefits Fouce's wider portfolio.
There may be disagreement over which prospects to explore, the exploration budget, development timing, production rates, marketing/offtake arrangements and whether to sell an asset. Fouce's greater size creates a material imbalance of bargaining power.
Fouce could use access to seismic, geological and commercial information to identify prospects for itself, or view the relationship as a first step towards acquiring Slide. This is especially relevant if it has a shareholding, contractual relationship or existing local presence connected with Slide.

Principal strategic risks and protections required.

Loss of control/value: define each party's interest, cash calls, dilution rules, carried interests, valuation methodology and ownership of discoveries. Major decisions should require agreed reserved-matter approval rather than allowing Fouce unilateral control.
Information and intellectual-property risk: disclose only information necessary for evaluation under a robust NDA; specify ownership and permitted use of pre-existing data, newly generated data and technology, including return/destruction obligations if discussions end.
Financial risk: establish funding commitments, spending limits, approval of work programmes and budgets, consequences of default, parent guarantees where appropriate, and clear accounting/tax treatment. Slide must ensure that contingent commitments do not threaten liquidity.
Execution and safety/environmental risk: undertake technical, financial, legal, sanctions, anti-bribery, safety and environmental due diligence on Fouce and its subsidiary. Allocate operator responsibilities, insurance, indemnities, decommissioning liabilities and remediation obligations explicitly.
Regulatory and competition risk: confirm licence-transfer/partner approvals, local-content requirements, joint-venture and merger-control implications, and restrictions on exchanging competitively sensitive information.
Exit and dispute risk: include transfer restrictions, pre-emption rights, change-of-control provisions, termination rights, a deadlock process and a specified dispute-resolution forum. Slide should not grant exclusivity over all current or future opportunities unless it is paid for and tightly time-limited.
Reputational risk: Fouce's conduct will affect Slide's reputation. The agreement should require compliance with Slide's ethical, anti-corruption, human-rights, safety and environmental standards, plus audit and termination rights for serious breach.

Before signature, management should therefore obtain Board approval, commission technical and commercial valuation of the relevant prospects, complete due diligence, seek legal/regulatory advice and negotiate a definitive agreement. In particular, the memorandum must state clearly whether it is non-binding, apart from confidentiality/exclusivity/cost provisions, and must not accidentally commit Slide to an unfavourable transaction.

Stock-market communication.

We should assess immediately whether the approach, the memorandum or the proposed collaboration is inside information/price-sensitive under the rules applicable to Slide's listing. Material information must be announced promptly unless a lawful basis exists to delay disclosure and confidentiality can be maintained.

If negotiations are incomplete and confidentiality is preserved, it is normally preferable not to announce speculative discussions. Maintain an insider list, limit access to those with a need to know and remind all participants of dealing and confidentiality restrictions.
If the memorandum is signed, negotiations leak, rumours create an abnormal market, or the arrangement is material, issue a timely, factual regulatory announcement. It should identify Fouce, the assets/area and purpose of the collaboration, the principal non-confidential terms, expected financial commitments where known, approvals/conditions and material risks. It must make clear if the memorandum is non-binding and that there is no certainty of a definitive transaction, exploration success or economic benefit.
Communications should be approved by legal counsel, the Board and the nominated market-disclosure function, released through the appropriate regulatory news service and then made available consistently to all investors. We should avoid promotional reserve/resource claims and should not selectively brief analysts or major shareholders before public disclosure.

Recommendation: continue discussions because the collaboration may improve Slide's exploration capability and risk profile, but sign only after the protections above, an acceptable governance/economic structure and all required approvals are in place.

QUESTION NO: 6

A company is assessing whether to discontinue a product line that has reported an accounting loss. Some head-office costs allocated to the product line would continue regardless of the decision.

Which information is most relevant when deciding whether to discontinue the product line in the short term?

A. The product line's contribution after avoidable fixed costs.

B. The product line's allocated share of unavoidable head-office costs.

C. The product line's historical development expenditure.

D. The product line's budgeted depreciation on shared assets.

ANSWER: A

Explanation:

The decision should be based on avoidable revenues and costs. Contribution after deducting costs that would be avoided on discontinuance shows the financial effect of retaining or discontinuing the product line; unavoidable allocated costs are not relevant to the short-term decision.

QUESTION NO: 7

A company is reviewing the performance of a division whose manager has authority over revenues, operating costs and capital investment decisions.

Which performance measure is most suitable for evaluating whether the division is generating returns above its cost of capital?

A. Gross profit margin

B. Residual income

C. Revenue growth percentage

D. Inventory turnover

ANSWER: B

Explanation:

Residual income measures the profit earned after charging the division for the cost of capital employed. A positive residual income indicates that the division has generated a return above the required cost of capital.

QUESTION NO: 8

An internal audit review finds that one employee can create a new supplier on the purchasing system, amend bank details and approve supplier payments.

Which control weakness is most evident?

A. Inadequate segregation of duties

B. Excessive use of budgetary control

C. Overstatement of non-current assets

D. Ineffective foreign-exchange hedging

ANSWER: A

Explanation:

The same individual controls supplier master-file changes and payment approval. This absence of segregation of duties creates an opportunity for fraudulent suppliers or unauthorised changes to be established and paid.

QUESTION NO: 9

A company operates in a jurisdiction where an industry regulator is considering introducing stricter product-safety requirements. The proposed requirements may increase compliance costs for all market participants.

Which element of PESTEL analysis does this development represent?

A. Legal.

B. Economic.

C. Social.

D. Technological.

ANSWER: A

Explanation:

Regulatory requirements arise from the legal environment. Legal factors within PESTEL include legislation, regulation, compliance obligations and changes in enforcement.

QUESTION NO: 10

From: Romuald Marek, Chief Finance Officer
To: Senior Finance Manager
Subject: Fuel tankerage

Hello

I have attached a news article

Arrfield does not set the price for aviation fuel sold at our airports, but we do receive a percentage of the revenues earned by the fuel companies.

I need your help to prepare for a Board meeting to discuss this matter Please write a paper covering the following

➾ Firstly, explain the impact that the criticisms voiced by the environmental campaigners will have on the frequent PESTEL analysis that Arrfield's Board conducts.

[sub-task (a) = 34%

➾ Secondly, evaluate the commercial logic of Arrfield's strategy of basing charges for non-aeronautical services (such as fuel sales and retail activities) on percentages of the revenues generated by the companies that operate at its airports

[sub-task (b) = 33%)

[sub-task (c) = 33%}

Thanks

Romuald Marek

Chief Finance Officer

A. Thirdly, recommend with reasons whether Arrfield should attempt to justify strategic decisions to its shareholders when the commercial logic of those decisions is not immediately obvious

ANSWER: A

Explanation:

Thirdly, recommend with reasons whether Arrfield should attempt to justify strategic decisions to its shareholders when the commercial logic of those decisions is not immediately obvious is correct because it completes the third required element of the CFO's requested Board paper. The scenario explicitly identifies two earlier requirements—environmental criticism's effect on PESTEL analysis and the commercial logic of revenue-percentage charges—then allocates a further 33% to an omitted third sub-task. The requested recommendation concerns shareholder communication where the rationale for a strategy may not be self-evident, which is a distinct governance and stakeholder-management issue rather than a repetition of either earlier requirement.

A sound response would recommend transparent, balanced communication of the decision's strategic rationale, expected value creation, principal risks, assumptions and performance measures. Shareholders need sufficient information to assess directors' stewardship and to understand how the strategy supports sustainable long-term success. Arrfield should explain matters clearly while protecting genuinely commercially sensitive details, such as confidential contractual terms or competitively sensitive pricing information. This aligns with the UK Corporate Governance Code's emphasis on meaningful engagement with shareholders and reporting that enables them to assess a company's position and prospects. It also supports the professional principles of integrity, objectivity and transparent communication expected of management accountants. See the [UK Corporate Governance Code]() and [AICPA & CIMA ethics and standards resources]().

QUESTION NO: 11 - (SIMULATION)

CORRECT TEXT

Reference Material:

Business Weekly

US President refuses to be drawn on weak USD

The USD remains weak after a succession of disappointing economic indicators, with leading economists warning that a further decline may be on the way.

At a press conference yesterday, the US President claimed that there was no cause for alarm and that the US economy remains fundamentally strong.

The President refused to indicate whether the US Government would act to sustain the USD, stating that any such action would be premature.

You have received the following email from Marcus Svenson, Finance Director:

From: Marcus Svenson, Finance Director

To: Senior Finance Manager

FW: Pricing

Hi,

I am forwarding an email from Sarah Johns.

Sarah has not been with us for very long and this is her first experience of dealing with a currency price movement.

I am really busy, so I need you to respond to her requests. Please email her as soon as possible.

Marcus

From: Sarah Johns, Marketing Director

To: Marcus Svenson, Finance Director

Subject: USD movement

Hi Marcus,

A lot of our biggest customers are threatening to cancel orders unless we reduce our selling prices. Timber and associated products are commodity items that are priced in USD, so I thought that our prices would automatically remain competitive regardless of what happened to the USD. I am particularly confused over domestic sales, because many of the customers who have threatened to cancel are based in this country and we invoice them in M$.

Please help me to understand why the M$/USD exchange rate can affect our competitive position in this way.

I also wish to know why you have chosen to do nothing to hedge against this risk. If you look at the attached article you will see that the USD is an issue in the business news.

Sarah

ANSWER: See the explanation for the answer

Explanation:

Email to Sarah

Although timber has a USD commodity price, this does not mean that our selling price in M$ is automatically protected from exchange-rate movements. The USD commodity benchmark and the currency in which a customer is invoiced are separate matters.

With a weak USD (i.e. an appreciation of M$ relative to the USD), a USD-denominated world price translates into fewer M$. For example, a USD price that was previously equivalent to M$100 may be equivalent to only M$90 after the exchange-rate movement. Overseas suppliers can therefore offer the same USD-priced product to domestic customers at a lower M$ price.

If we continue to invoice domestic customers at the previous M$ price, our price is above the market-equivalent M$ price and customers may cancel or switch supplier. To remain competitive we may need to reduce the M$ price, which reduces our M$ revenue and potentially our margin. There is no automatic adjustment unless our pricing policy or contracts specifically link the M$ invoice price to the current USD/M$ rate.

For customers invoiced in USD, our quoted USD price can remain comparable with other USD commodity suppliers. However, customers invoiced in M$ are directly concerned with the M$ amount they must pay, so the exchange-rate movement affects their purchasing decision.

We have not used a financial hedge simply because of a news report or an expectation that the USD may weaken. A forward sale of USD would lock an exchange rate for a known future USD receipt; it would provide certainty over the M$ value of that receipt, but it would not remove the underlying competitive or pricing pressure. In particular, domestic M$ invoices do not themselves create a USD cash receipt to hedge. Hedging an uncertain amount of sales could also create an over-hedge if orders are cancelled or prices are reduced.

Accordingly, the immediate issue is to review the M$ pricing formula, competitor prices, expected order volumes and margins. We should then identify any *committed, predictable* net USD receipts (after any USD costs or other natural offsets) and consider forwards or other hedging for that genuine transaction exposure. This should be distinguished from the wider economic exposure caused by foreign competitors being able to lower their M$ prices.