

**CMA JUNE, 2020 EXAMINATION  
STRATEGIC LEVEL  
SUBJECT: P3. PERFORMANCE STRATEGY**

Time Allocated: Three hours

Total Marks: 100

**Instructions to Candidates**

There are three sections (that is A, B & C) in this paper. You are required to answer ALL questions.			
Answers should be properly structured, relevant and computations need to be shown wherever necessary.			
You are strongly advised to carefully read ALL the question requirements before attempting the question concerned (that is all parts and/or sub-questions).			
ALL answers must be written in the answer book. Answers written on the question paper will not be submitted for marking.			
Start answering each question from a fresh sheet. Your answers should be clearly numbered with the sub-question number then ruled off, so that the markers know which sub-question you are answering.			
Section	No of questions in the Section	No of sub-questions in the Section	Marks allocation
A	01	08	20%
B	01	05	40%
C	02	02	40%

**TURN OVER**

## **SECTION A – 20 MARKS**

This section consists of 1 question and 8 sub-questions.  
You are advised to spend no longer than 36 minutes on this section. Section will carry 20 marks and one sub-question will carry 2.5 marks each.

### **Question 01**

- (a) Define and illustrate fraud prevention strategy. **(2 ½ Marks)**
  
- (b) Identify the five categories of common threat. **(2 ½ Marks)**
  
- (c) Mention the four stages of target costing. **(2 ½ Marks)**
  
- (d) List the benefits of having good corporate governance system. **(2 ½ Marks)**
  
- (e) Explain product risk with example. **(2 ½ Marks)**
  
- (f) Distinguish between fair value hedge and cash flow hedge. **(2 ½ Marks)**
  
- (g) Define what is meant by a control and a weakness in internal control. **(2 ½ Marks)**
  
- (h) Define social and environmental audit. **(2 ½ Marks)**

***END OF SECTION A***

**SECTION B Starts on page 3**

**Section B– 40 MARKS**

This section consists of 1 question and 5 sub-questions.

You are advised to spend no longer than 14.4 minutes on each sub-question in this section. Section will carry 40 marks and one sub-question will carry 8 marks each.

**Question 02**

- (a) A group of companies is divided into two autonomous operating divisions. The group cost of capital is 15%. In ROI calculations, the capital employed is taken as the figure at the beginning of the year. All fixed assets are depreciated on a straight-line basis.

If no new capital expenditure transactions take place, the forecast results for next year are:

Division	Capital employed at beginning of year Tk. 000	Net profit for year (after depreciation) Tk. 000
P	410	130
R	570	132

Division P could invest Tk. 38,000 now in a new asset so as to increase net profit by Tk. 11,500 per annum for five years. The asset is not expected to have any scrap value.

**Required:**

- (i) Describe the risks inherent in the use of ROI as a performance measure for the manager of Division P. **[Marks: (5+3) = 8]**
- (ii) Advise how these risks may be mitigated.
- (b) A systems analyst must be prepared to carry out both cost-benefit calculations & risk analysis as part of the proposal for a new computer system.

**Required:**

Describe two methods, which ignore time value of money for demonstrating the costs and benefits of such a system over a period of time.

**[Marks: (4+4) = 8]**

- (c) Illustrate to management the major causes of fraud and the major controls that should be in place to reduce fraud. **[Marks: 8]**
- (d) YEJ is a market leading, high technology manufacturing organisation producing components for the computer industry. YEJ has adopted a 'lean' approach to all its functions and has already made a decision to implement a new enterprise resource planning system (ERPS) to support the management of its customers, suppliers, inventory, capacity planning, production scheduling, distribution and accounting functions. The Board of YEJ is considering the outsourcing of the design, delivery, implementation and operation of the ERPS to a specialist contractor that has an excellent reputation within the computer industry.

**Required:**

Write a report to the Board of YEJ comparing and contrasting the advantages and disadvantages of outsourcing the ERPS system as suggested above.

**[Marks: 8]**

- (e) Risk treatment (or risk response) is an important component of risk management strategy. Explain what is meant by risk treatment and its benefits to a Board of Directors of your organization. **[Marks: 8]**

**END OF SECTION B**

**SECTION C Starts on page 4**

**Section C– 40 MARKS**

This section consists of 2 questions.

You are advised to spend no longer than 45 minutes on each question in this section. Section will carry 40 marks and allocation of marks for each sub-question is indicated next to the sub-question.

**Question 03**

Mr. Alam is a member of the internal audit department of J Sharif Ltd, a local transportation company. Mr. Alam has recently completed a compliance audit of the extent to which the company's delivery vans are being maintained in accordance with the company's policy.

Each of J Sharif Ltd's depots has a full-time mechanic. The company's policy is that the depot mechanic is required to check each van's fluid levels and give a road test on a monthly basis. The Depot Manager is responsible for ensuring that every van has been checked in this manner.

One of J Sharif Ltd's delivery drivers was recently involved in a road traffic accident. The police report relating to this accident indicates that the van's brakes had failed because of a leak in the brake pipe. The delivery driver has been charged by the police with an offence because it is illegal to drive a vehicle with defective brakes.

J Sharif Ltd's Transport Manager has reviewed the van's maintenance log. The log shows that the depot mechanic had not inspected the van during the six weeks before the accident. The Head of Internal Audit has reviewed Mr. Alam's report and has noticed that although Mr. Alam had visited the depot shortly before the accident occurred he had reported that policies were being adhered to.

The Head of Internal Audit has asked Mr. Alam to explain why he gave a positive report when records prove that policies had not been adhered to. Mr. Alam explained that the Depot Manager had admitted that the vans had not been inspected as frequently as company policy required because the depot mechanic had been absent for two weeks because of ill health. There were no other qualified mechanics available to carry out these inspections and the depot's repair budget was insufficient to pay for the vans to be inspected by a third party. The Depot Manager had asked Mr. Alam not to note this omission in the audit report because it would lead to disciplinary action, which would harm the Depot Manager's career. Mr. Alam agreed not to report the missed inspections provided that the Depot Manager promised that all of the vans would be inspected as soon as possible when the depot mechanic returned to work.

The Head of Internal Audit was dissatisfied with Mr. Alam's behaviour alleging Mr. Alam had not acted in an independent manner. Mr. Alam denies that accusation because he has no connection to the Depot Manager or any of the depot's other staff. Additionally, Mr. Alam has pointed out that the Depot Manager could easily have falsified the maintenance records to conceal the fact that the vans had not all been inspected on schedule and a negative internal audit report would simply encourage Depot Managers to falsify their records in future.

**Required:**

- (i) Define how internal auditor can contribute in the effectiveness of internal control
- (ii) Discuss the implications of Mr. Alam's behaviour for the governance of J Sharif Ltd.
- (iii) The Head of Internal Audit wishes to conduct a thorough investigation into the level and frequency of the inspection of the company's delivery vans. Recommend the tests that the internal audit department could conduct to ensure that the depot mechanics are inspecting vehicles in accordance with company policy. You should also explain the purpose of the tests that you have recommended.

**[Marks: (6+6+8) = 20]**

**SECTION C Continues on page 5**

#### Question 04

- (a) Describe the main forms of currency risk faced by the following types of company and suggest possible methods of managing these risks:
- International companies trading throughout the world;
  - Companies which make sales to customers within their home country only.
- (b) MJS Ltd. exports its products throughout the world. It has today received from a regular customer in France an order worth Tk. 350,000 at today's spot market exchange rate. It has also received from a new customer in Uganda an order worth Tk. 150,000 at today's spot rate. Both orders are to be paid in the respective importer's currency. Terms of trade are 60 days' credit. No discount is offered for early payment. Experience has shown that the French customer may take up to 90 days to pay.

	Foreign Exchange Rate (Mid Rates)		
	French francs/US \$	US \$/BDT	Uganda Shillings/BDT
Spot	5.7485	1.4920	1700
1 month forward	5.7622	1.4898	N/A
2 month forward	5.7727	1.4886	
3 month forward	5.7833	1.4873	

Money Market Rates (% per annum)		
	Deposit	Borrowing
BD Bank	5	8
Uganda Bank	15	N/A
US Domestic bank	3	6

These rates are fixed for a period of 2 or 3 months for immediate deposits or borrowings. MJS Ltd. converts all foreign currency receipts into BDT immediately on receipt. Wherever possible, the company uses forward exchange contracts to hedge its currency risks.

In view of the lack of forward markets in Uganda, the Ugandan customer has offered to pay \$US225,000 to MJS Ltd. in 3 months' time, instead of Ugandan shillings in 60 days.

The customer is able to do this as a result of his government's new economic liberalisation policies.

#### Required:

- Calculate the BDT receipts that MJS Ltd. can expect from its sales to the French customer, assuming that MJS Ltd. hedges its risk using the forward market.
- Calculate the expected BDT receipts from the Ugandan customer, assuming that its offer of payment in US\$ is accepted. Assume that MJS Ltd. hedges its risk using
  - the forward market; or
  - the money market;
  - and advise MJS Ltd. on which method is most advantageous.
- Advise MJS Ltd. on whether the Ugandan customer's offer of payment in US\$ should be accepted.

[Marks: 5+5+(3+4+3) = 20]

\* End of Question Paper \*