



**THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF  
PAKISTAN (ICPAP)**

Stage	<b>Skills</b>	Course Code	<b>S-402</b>
Examination	<b>Winter-2011</b>	Course Name	<b>Business Analysis and Decision Making</b>
Time Allowed	<b>03 Hours</b>	Maximum Marks	<b>100</b>
<b>NOTES:</b> 1. All questions are to be attempted. 2. Answers are expected to be precise, to the point and well written. 3. Neatness and style will be taken into account in marking the papers.			

**Question No 1:-**

**A)** ABC, a publishing company of books and educational videos, adopts a flexible work hour policy. Employees have the option to work at home as long as they are able to meet the deadlines for their assigned responsibilities. Employees working from home can access ABC's secured intranet from home to download manuscripts and video clips for editing and formatting. ABC does not compensate for the cost of Internet usage incurred at home given that the employees can work in the office if they do not want to pay for the Internet usage. Recently, ABC noticed that several employees are using company computers to stream large number of movies for their personal use. When confronted by management, these employees claim that they pay for the Internet charges when they work from home without any compensation; hence, it is fair for them to use company Internet resources to download movies for personal use. Use the 5 steps of resolving ethical dilemmas to determine whether there is an ethical issue in this scenario.

(7 marks)

**B)** Office Solutions is a consulting firm providing integrated information systems for mid-sized companies. For each client, they provide a comprehensive service ranging from business process analysis, new systems design, vendor selection, customization, and implementation to end-user training. One of Office Solutions' strategies for securing clients is to recommend the exclusive software developed by the company. Once the system is adopted, Office Solutions will recommend extensive customization and user training, which often leads to substantial costs that were not disclosed in the initial contract. Office Solutions justifies the additional costs using various reasons, as change of requirements, change of scope, system enhancement, and change of user expectations. Many of its clients feel they were manipulated by the company once they entered into any agreement with Office Solutions. Indicate any ethical or legal issues in Office Solutions' practice. Explain what actions you would take if you were Office Solutions' client and were in the same situation.

(7 marks)

C) You work on an IT project team that has just developed a new application for the customer services department of your company. As a junior member of the team, you are assigned to work with a senior team member to conduct the testing of the new program. During the process, you noticed that the senior team member skipped a few important tests. For example, the security test was not comprehensive enough to ensure secured access to the system and there is a high risk that the customer files could be penetrated by hackers. The stress test was not conducted properly; therefore, there is no assurance of the system's ability to handle high volumes of customer inquiries. When you raised these questions, the senior member told you that the security measures and the capacity of the new system are similar to the existing system. Therefore, he argues that there is little risk of a security breach or a system crash due to data overload. (6 marks)

**Required:** Indicate whether you agree with his position? Explain whether there are ethical and legal issues in this case, and if so, what actions you should take.

### Question No 2:-

A) You are a Key Account Sales Manager with Nextel, an electronic components manufacturer. You hope to supply four million units of a component to an electronic device manufacturer for its next generation product. In the course of negotiations you learned that you are competing against a company whose price is 12 cents lower per unit.

How would you go about preparing a customer value proposition with a view to persuading the device manufacturer to pay the premium price your solution deserves? Justify your answer. (10 marks)

B) You have appointed a project management team to address an urgent and important organization issue and have become frustrated with the lack of progress. Feedback from the team suggest that conflict has arisen, with certain individuals 'jockeying' for position within the team, factions have begun to form and some team members feel threatened and challenged. The team can't seem to get beyond this phase which is also characterized by postponed meetings, poor attendance at meetings, poor cooperation, and meetings that break down in disagreement or argument.

Recommend a range of action steps for the leader of the project team to take so as to get the group through this stage as quickly as possible. (10 marks)

### Question No 4:-

A) Entity X is the world's only producer of a sugar sweetener called sucralose, which it sells under a well-established brand name. Entity X has maintained its monopoly in the market for sucralose by enforcing its patents over the production process for the product. These patents have about 15 years left before they expire. There is a rapid growth in the demand for sucralose. Demand grew by over 60% last year, and the entity currently has insufficient production capacity to meet all the demand. Supplies to customers are therefore rationed. Entity X is investing in an

increase in its production capacity, by expanding facilities in its existing production plant and opening a new production facility in another country where labour costs are lower.

The huge success of sucralose is caused by the growing concerns of the public about obesity, and the preference of many consumers for sweeteners rather than sugar. In addition unlike other sweeteners, sucralose is a versatile product that can be used in the production of other consumer items, such as soft drinks, cakes, yoghurts and cereals.

A competitor has announced that it is exploring the possibility of developing a rival sucralose product that would not breach the patent rights of Entity X, and that it will hope to have a product on the market in about five years' time.

Required

- (a) Identify the stage in the product life cycle that sucralose has reached. (5 marks)
- (b) Assuming that the competitor does not enter the market sooner, suggest what will happen in the market for sucralose when the patents of Entity X eventually expire. (7 marks)

**B)** When an entity is considering its strategic options, it may be faced with a choice between several alternative options. These options should be compared and evaluated, in order to select the one that seems the most suitable. A school of thought suggests that alternative strategies should be compared according to their:

- (a) Suitability
- (b) Acceptability and 31/33
- (c) Feasibility.

**Required:**

Explain the meaning of the suitability, acceptability and feasibility of strategies. (8 marks)

**Question No 4:-**

**A)** What is Six Sigma? How is it different from other quality programs? Explain in brief themes of Six Sigma. (10 marks)

**B)** Briefly answer the following: (2.5x4 marks)

- a) Need for Turnaround Strategy.
- b) Grand Strategy Alternative during Recession.
- c) 'Shared Vision and 'Vision Shared'.
- d) What tips can you offer to write a 'right' Mission Statements?

**Question No 5:-**

**A)** FLG Co has annual credit sales of Rs 4.2 million and cost of sales of Rs1.89 million. Current assets consist of inventory and accounts receivable. Current liabilities consist of accounts payable and an overdraft with an average interest rate of 7% per year. The company gives two months' credit to its customers and is allowed, on average, one month's credit by trade suppliers. It has an operating cycle of three months. Other relevant information:

Current ratio of FLG Co	1.4
Cost of long-term finance of FLG Co	11%

**Required:**

(4+4 marks)

**A)** Discuss the key factors which determine the level of investment in current assets.

**B)** How are leadership requirements in an organization likely to change as an organization grows?

**C)** JJG Co is planning to raise Rs15 millions of new finance for a major expansion of existing business and is considering a rights issue, a placing or an issue of bonds. The corporate objectives of JJG Co, as stated in its Annual Report, are to maximize the wealth of its shareholders and to achieve continuous growth in earnings per share. Recent financial information on JJG Co is as follows:

	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Turnover (Rs.m)	28·0	24·0	19·1	16·8
Profit before interest and tax (Rs.m)	9·8	8·5	7·5	6·8
Earnings (Rs.m)	5·5	4·7	4·1	3·6
Dividends (Rs.m)	2·2	1·9	1·6	1·6
Ordinary shares (Rs.m)	5·5	5·5	5·5	5·5
Reserves (Rs.m)	13·7	10·4	7·6	5·1
8% Bonds, redeemable 2015 (Rs.m)	20	20	20	20
Share price (Rs.)	8·64	5·74	3·35	2·67

The par value of the shares of JJG Co is \$1·00 per share. The general level of inflation has averaged 4% per year in the period under consideration. The bonds of JJG Co are currently trading at their par value of Rs 100.

The following values for the business sector of JJG Co are available:

Average return on capital employed	25%
Average return on shareholders' funds	20%
Average interest coverage ratio	20 times
Average debt/equity ratio (market value basis)	50%
Return predicted by the capital asset pricing model	14%

Evaluate the financial performance of JJG Co, and analyze and discuss the extent to which the company has achieved its stated corporate objectives of:

**(i)** Maximizing the wealth of its shareholders; (6 marks)

**(ii)** Achieving continuous growth in earnings per share. (6 marks)

\*\*\*\*\*