



**Institute of Certified Management Accountants of Sri Lanka**

Incorporated by Parliament Act No.23 of 2009

# May 2024 Examination

Strategic Level

SL4.5: Integrative Case Study

***Scenario-I***

(12 Pages)

## Section I: **SCENARIO I**

### **Comsip Bakers and Confectioners International Ltd (CBCI)**



#### ***Head of Finance - Induction and getting established***

Walking into his office on a typical rainy day Saturday morning, Dominic was greeted at his desk with a set of draft annual management accounts of 'Comsip Bakers and Confectioners International Ltd (CBCI)'. A firm believer in careful analysis of management accounts is critical before arriving at official financials, appreciated to have received these on a peaceful non-working day that will allow him better concentration (Appendix 1).

Glancing at the Calendar in the office, he realized today 25<sup>th</sup> April 2024, he is completing three months with the company as its Chief Financial Officer (CFO). Despite his impressive academic credentials and previous experience in heading the finance function of a leading pharmaceutical company, he realized that he has yet to come to terms with the affairs of CBCI. Even though the nature of the business deals seemingly with simple and uncomplicated, day-to-day accustomed household products in the form of a bakery and a range of sweet items compared to the complex pharma products, Dominic realized that the business model of the company is largely different. The company's business entails both the production and marketing locally and potentially in export markets, and hence it requires systematic knowledge and understanding of a more extended business cycle and a model compared to mere importing and distributing as per his previous pharmaceutical company experience.

CBCI is a joint venture company between Silva Bakers, a traditional family from the south of the country specializing in the bakery business, Samson distributors with modern marketing and management expertise, and a Singaporean institutional investor with a stake of 20% equity. Both families conveniently referred to as 'Silva' and 'Samson' are now in transition into their second generations and being long-standing business-level associates at the family level, CBCI was incorporated recently to realize the synergies of their respective industry-centric competencies as envisioned by the two families. Both parties hold equal stakes of 40% each with leadership shared between joint managing directors appointed from the two families: Ruwan Samson as the director in charge of Marketing and support services overlooking Finance, and HR functions, and Sithum Silva as the director in charge of total Operations and Supplies management.

Valued by professional valuers and transacted on an arm's length basis, suitable assets that fit in with the new business model from the respective businesses have been transferred to form some of the assets of the joint venture company with the complete agreement of the Singaporean partner.

During his final interview for the new position, which was also attended by all joint venture partners, Dominic recalled the emphasis made as to the expected responsibilities of the new CFO that invariably have to be a strategic role and more of an allrounder, extending beyond compliance and financial reporting. Up to now, however, Dominic's concentration at CBCI has been to acquaint himself with the duties of the different staff members of his division and more importantly the knowledge of the accounting system provided with the assistance of the Singaporean partner and that was being updated with some modifications and revisions. Being a company that commenced operations in September 2022, the financials of the first year of operations that ended on 31<sup>st</sup> March 2023 had also to be finalized and an external audit completed. Having accomplished the preliminaries as mentioned above, Dominic decided that the present imperative is to seriously get into mastering more business-centric knowledge, and strategic and operational dimensions of CBCI.

### ***Mission and Vision of CBCI***

"CBCI is a company dedicated to catering for certain key varieties of breakfast convenient food that are prepared, preserved and delivered using quality ingredients conforming to high standards across all stages from sourcing, manufacturing, preserving and delivering. such a high degree of company-wide customer care has enabled our company to be endowed with an enviable brand in the Sri Lankan food market".

“Our Vision is to be a leading manufacturer and a marketer of delivering unparalleled customer satisfaction in whichever product groups that the company engages, especially in breakfast, short eats and convenient foods, with quality and value as the expression of CBCI’s philosophy in business”.

### ***Business model of CBCI***

Malith and Dominic have been friends from their days of schooling, and the former is an assistant with a leading consulting firm specializing in business process reengineering and client advisory services, committed to improve strategic management competencies of organizations. Dominic always relies on picking the brains of Malith on issues in his working environments, and accordingly decided to seek his advice as to how he should approach mastering affairs at CBCI. Unsparing in his sharing of knowledge with a sincere friend, Malith advised Dominic to adopt a systematic application of the concept of a ‘business model’ approach to comprehensively understand CBCI’s business affairs, operationally and also with a strategic flavor.

#### *The concept of a ‘Business Model’:*

It is a blueprint of a comprehensive, structured view of the affairs of any business that describes how a company creates, delivers, and captures value that helps one understand the totality of the working mechanisms and how a company eventually satisfy key stakeholders.

Given below are summaries of analyses by Dominic of the key components of CBCI’s business model.

#### *a) Key Revenue categories / streams / Product lines*

- Bread-based versions (Line A)
- Vegetarian bakery products (Line B)
- Non-veg bakery products (Line C)
- Sweet Items - cakes, biscuits etc. (Line D)

(Line A consists of all types of bread-related product groups such as bread versions, buns etc. Line B and Line C include value-added vegetarian and non-vegetarian product groups respectively, such as vegetable buns, fish/meat buns, egg buns, pastries etc. The sweet items are categorized under line D that includes product groups such as cake items and some varieties of biscuits)

#### *b) Customer Segments*

This refers to who are the main customer segments of CBCI and what needs they have. In this respect, the customers targeted by CBCI are a more discerning type of customers who are willing to pay a slight premium in return for better reliability in the form of freshness and the use of

genuine ingredients devoid of harmful elements, and more healthful manufacturing processes. Further, closely guided under the leadership of Ruwan Samson CBCI brand communication intends to convey an implied differentiation of higher quality images that aims to attract more up-market consumers. The company's target markets are currently located in the Western province, with plans for future expansion.

*c) Value Propositions*

As discussed above, the key points here are as to what the CBCI aims to deliver, to meet the key mix of benefits expected by the respective members of the targeted segments.

*d) Key Activities and key resources*

These refer to key categories of activities that CBCI performs to deliver identified value propositions. These mainly include the range of activities that are spread across its total value creation process and comprise primary as well as secondary activities, if one refers to these with reference to the popular Value Chain framework of Prof. Michael Porter.

As much as any type of manufacturing process, the initial trigger point is raw material management for quality control and thereafter followed by a series of steps that include mixing, fragmentation, make-up, proofing, baking, cooling, slicing, and packaging. Studying the value creation process of the company through the lenses of Porter's value chain framework, Dominic became convinced of the importance of an accountant carefully spending time observing the manufacturing processes for different product groups. In his mind, such a comprehensive analysis only can enrich an accountant's understanding of vital aspects of finance such as, for example, in costing and cost drivers as critical knowledge.

The immense goodwill and reputation of the traditional Silva bakers because of their acclaimed core competencies in the bakery business, and the strategic marketing capabilities of Samson distributors are the cornerstones on which CBCI has built their corporate foundation as a renowned bakery brand having made their entry lesser than a couple of years ago. The presence of the Singaporean food company has brought in an international reputation that has enlightened the company's brand equity.

*e) Geographic scope and channels of distribution*

Currently, CBCI operates in the Western Province and aims to penetrate its higher potential for more up-market products before making inroads progressively into other areas of the country's market scope. In addition to the company's outlets in key towns of the province, the products are also purchased by certain institutional buyers who have upscale cafes and supermarkets.

*f) Cost structure /Pricing*

The company is presently adopting a two-tier pricing structure for its total turnover that comprises its outlets (termed as showroom sales) and the other being institutional sales. These respective turnovers are given in the management accounts as per the Appendix 1.

- The product mix and respective product line quantities are determined by the director of the production function under the guidance of Joint Managing Director Sithum. Furthermore, it depends on the line balancing that will optimize the production processes, as well as set-up times and cost considerations. Given the extremely short shelf life of most of the product categories of the company except for line D items, minimization of the product wastage due to product expiration is considered an important variable that seems to have been carefully addressed at CBCI.
- Capacity utilization currently is around 60% and this is presently one of the strategic challenges confronting top management because, despite intense marketing efforts even the present budget for 2024/2025 is a turnover forecast below 55% of the total installed capacity.
- The pricing policy adopted for determining the customer prices for all product groups and lines as applicable in the own outlets (showroom sales) is to the price that will yield a gross profit of 30% , on showroom sales. This price is referred to as consumer price.
- Cost of sales of each product group consists of all production-related costs of the applicable products. Considerable effort has been made in this regard to allocate all possible production-related costs guided by an activity-based costing approach.
- Institutional sales are priced at 90% of the consumer price, which enables a 10% margin for the institutional customers from the consumer price, that is expected to cover transport costs etc., as the collections are from the CBCI production facility.

***Some cultural dimensions at CBCI***

Often during weekends, both Dominic and Malith happen to meet in the Latter's Club, sharing a game of table tennis and following up with happy hour socializing, ending up with dinner. Occasionally they also take this opportunity to share notes on professional activities and about experiences in corporate life. Dominic, one particular day, appeared a little stressed about cultural complications that one will have to invariably deal with working in an environment reporting to two bosses with varying degrees of leadership traits, behaviors and practices. Sithum grew up in a rather stifled, conservative family background as the senior Odiris Silva managed Silva Bakers following a strict code of ethics and heavy concentration on the bakery business to produce quality products and cost management. Strickler for details, he demanded unwavering loyalty,

strict adherence to all instructions and rewarded such long-standing compliance-centric behavior with commensurate benefits. Known for its quality, marketing was never an issue for the moderate output of Silva Bakers and always ended up making sound profits.

Ruwan Samson on the other hand was more exposed to a family atmosphere with his father, a gifted marketer and an outgoing personality who believed in taking risks for growth. “No venture, no gain” was a popular quote by the chairman of Samson Enterprises. Nevertheless, an astute businessman he was never a careless risk taker and most of his decisions ended in creating profitable opportunities.

Understanding the inevitable tensions within an environment of a strategic alliance, Malith was quick to allay any anxieties of his friend and advised him to be highly professional in his pivotal role as the head of the finance of an alliance between two family companies. He particularly stressed the importance of sharing any concerns as objectively as possible at bi-weekly management meetings attended by the joint managing directors. It was also stressed of the importance of supporting all decisions and actions by facts and not merely on opinion, to maintain a high degree of emotional intelligence and maturity, especially when dealing with joint managing directors. “I am sure your unbiased objectivity and forthrightness and attitude towards corporate success will be admired by both of them in the long run”- a quote by Malith in this discussion. Contributing towards Dominic’s job satisfaction at CBCI, up to now, both Sithum and Ruwan seem to maintain a harmonious relationship and an atmosphere of cordiality at the top of CBCI, a shining example to all concerned of the importance of standing by the decisions once arrived and finalized even after expressing dissenting opinions during related discussions.

### ***Reward Policies at CBCI***

Sithum mostly favored decisions being made at the top, while Ruwan seemed to practice a more participative style when arriving at decisions and had a flair for moving freely with staff even using humor to diffuse tense situations. He is always a good listener, receptive to discussing the problems of the subordinates and offers guidance in arriving at solutions. Of course, in fairness to Sithum, despite being a different personality to Ruwan he follows a strong disciplined work ethic, maintains an unbiased evaluation of the performance of all staff and leads by example with hard work, results orientation, and commitment and dedication. He is also quite familiar with the company’s overall IT capabilities, having pursued a production management degree in his secondary education. He is always an enthusiast of new developments of the technical aspects of the business and believes that a superior knowledge of production processes that drives product quality is key to corporate success.

Accustomed to a more regulated reward policy in his ancestral company, the concept of variable pay seemed a rather alien concept to Sithum when the idea of a managerial incentive proposal was broached by Ruwan. This thinking became evident when reviewing the company's pay structures that were discussed under closed doors with Dominic and the HR manager. Always eager to make dynamic moves, Ruwan has been working for some time with his personal assistant equipped with an accounting background and the HR manager in trying to figure out a method of introducing a combination of fixed and variable pay for senior managerial staff at CBCI. In fairness, Ruwan also informed Sithum and Dominic that he is working on a proposal for launching a senior managerial incentive scheme that he said will be presented and will invite the CFOs independent opinion once confidentially laid out. In Ruwan's mind, the rationale behind this concept is based on the thinking that the senior managerial team assist the managing directors to arrive at critical managerial decisions, and hence they are the lifeblood of organizational success. Accordingly, he strongly feels a senior managerial incentive scheme brings in variability linked to the profits of respective divisions.

Part D of the Appendix 1 is an analysis of the profitability of the two main avenues of Revenue generation at CBCI, which he proposes will form the basis of comparative financial performance and will determine the entitlement to the senior managerial incentives.

### ***Growth and Diversification initiatives at CBCI***

Increasing competitive pressures, the difficult economic conditions in our social environment for more upscale bakery and confectionery products, and the objectives, strength, encouragement and support of the overseas food company are among some factors that resulted in CBCI aspiring for expansion, growth and even embarking on some diversification.

Accordingly, the directors of CBCI decided they are keen to strategically evaluate and proceed with any viable expansion opportunity in the area of making and marketing food products. Given the active involvement of Ruwan as the joint MD with export market expertise and overseas distribution as well as the presence of the overseas partner, exploring export markets is a keenly interesting direction that the company is actively considering.

Some research carried out in the area of export marketing has shown that the demand for frozen foods, which includes certain varieties already marketed by CBCI and being up to required quality standards, is enjoying good growth rates among Western markets. The core categories of such market segments include working middle-income categories with children.



In one of the recent board meetings, Ruwan commented and especially drew the attention of Sachintha - Head of Operations, Dilan- Head of Marketing and Dominic -CFO to be prepared for a strategic acquisition of a frozen food company.

***Strategic and Marketing considerations of this proposed project:***

It has been decided by the CBCI directors that the proposed acquisition is an ideal strategic fit with their long-term direction and objectives. Since export marketing is an integral component of the success of this project, an agreement will have to be reached with the present owners to secure an understanding with their export clients as to the continuance of the export prospects with the new ownership. Given the corporate reputation and the acclaimed overseas presence in CBCI ownership and directorate, this requirement is considered a possibility. The present owners of the prospective acquisition agreed wholeheartedly to support this initiative.

**\*\*\*End of Scenario-I\*\*\***

<b>COMSIP BAKERS AND CONFECTIONERS INTERNATIONAL LTD (CBCI)</b>		
<b>Draft Management Account Summaries</b>		
<b>Part A</b>		
<b>Profitability of the company for the year ended 31st March 2024</b>		(In Rs 000's)
<b>Turnover</b>		
Show room sales	1,280,000	
Institutional Sales	1,920,000	<b>3,200,000</b>
Less Cost of Sales		2,389,333
<b>Gross Profit</b>		<b>810,667</b>
<b>Less Operating Expenses</b>		
Administration		253,000
Marketing and Sales		320,000
<b>Operating Profit</b>		<b>237,667</b>
Less -Finance Costs		170,000
<b>Profit Before Tax</b>		<b>67,667</b>
Less- Taxation @30%		20,300
<b>Profit After Tax</b>		<b>47,367</b>
*All prices are net of any taxes		

<b>Part B</b>		
<b>Financial Position of CBCI as on 31st March 2024</b>		(In Rs 000's)
<b>Non-Current Assets</b>		
-Property Plant and Equipment and Other Assets		
-Land and Buildings ( Valuation )		450,000
-Proposed head office premises		350,000
-Bakery Equipment (Valuation)		200,000
-Vehicles for operations/marketing activities (Valuation)		150,000
-Other office vehicles (Valuation)		125,000
<b>Current Assets</b>		
Inventories		99,556
Receivables		136,000
<b>Total Assets</b>		<b>1,510,556</b>
<b>Equity and Liabilities</b>		
Equity		
Stated Capital & Reserves		417,028
<b>Non-Current Liabilities</b>		
Long term Loans		750,000
<b>Current Liabilities</b>		
Creditors and Accrued expenses		243,528
Bank overdrafts		100,000
<b>Total Liabilities and Equity</b>		<b>1,510,556</b>

**Part C****Product-Mix -analysis of the turnover**

	Product Lines			
	Line A	Line B	Line C	Line D
				(Rs 000's)
<b>Show Rooms</b>	512,000	128,000	384,000	256,000
Quantities	2,700	550	1,200	400
<b>Institutional Sales</b>	768,000	192,000	576,000	384,000
Quantities	4,500	917	2,000	667

**Part D****Profitability of 'Show Room Sales' Vs 'Institutional Sales'**

	Showroom	Institutional	Total
			(Rs 000's)
Turnover	1,280,000	1,920,000	3,200,000
Cost of Sales	896,000	1,493,333	2,389,333
<b>Gross Profits</b>	<b>384,000</b>	<b>426,667</b>	<b>810,667</b>
Overheads (Allocated on the basis of turnover)	297,200	445,800	743,000
<b>Profit/(Loss) Before Tax</b>	<b>86,800</b>	<b>-19,133</b>	<b>67,667</b>
Tax @ 30%	-26,040	5,740*	20,300
<b>Profit After Tax</b>	<b>60760</b>	<b>-13,393</b>	<b>47,367</b>

\*Applicable Tax shield for management accounting purposes.

<b>SL4.5-ICS May 2024 Examination- Marking Grid</b>					
<b>Evaluation</b>		<b>Weightage</b>	<b>Competency assessment (Marks)</b>		
			<b>High level of application</b>	<b>The middle level of application</b>	<b>Low level of application</b>
<b>Knowledge</b>	Technical knowledge (On Management Accounting, Financial Accounting & Business Management).	<b>30</b>	24-30	8-23	1-7
<b>Application</b>	Application of practical solutions based on the knowledge and skills gained through synthesis, analysis, and calculative practices.	<b>20</b>	16-20	6-15	1-5
<b>Integration</b>	Examine a problem/ issue in a holistic sense through drawing from diverse functional disciplines.	<b>15</b>	12-15	4-11	1-3
<b>Prioritization</b>	Demonstrate a rational, balanced outlook supported with evidence to unearth issues and rank them in the order of priority.	<b>15</b>	12-15	4-11	1-3
<b>Decision</b>	Present viable decisions and implementable recommendations.	<b>10</b>	8-10	4-7	1-3
<b>Presentation</b>	Ability to structure answers clearly and legibly in a most appropriate logical sequence with recommendations and relevant references clearly.	<b>10</b>	8-10	4-7	1-3
<b>TOTAL</b>		<b>100</b>			