



Institute of Certified Management Accountants of Sri Lanka

Incorporated by Parliament Act No.23 of 2009

November 2025 Examination

Strategic Level

SL4.3: Business Strategy & Risk Management

INFORMATION:

1. Time allowed:
Reading– **15 minutes.**
Writing - **Three (3) hours.**
2. The total marks allowed for this paper are 100.
3. This paper has 07 pages.

INSTRUCTIONS:

4. This paper consists of **three parts.**
Section I: Question No. 01 (**Compulsory**).
Section II: Question No. 02 – 04 (**Select any 02 questions**).
Section III: Question No. 05 – 06 (**Answer both questions**)
5. Answer only five (05) questions, including Question No. 01.
6. The answers should be in the English language.

Section I: Compulsory Question.

QUESTION NO 01

Dynamic Electricals and Distributors (DED)

Dynamic Importers and Distributors (DED) is a medium-sized organisation importing and marketing a range of household electrical equipment, primarily positioned to attract price-conscious customer segments. DED's marketing strategy aims to make profits with high volumes at lower margins, given that markets are becoming increasingly price-conscious under difficult economic conditions. Because this is a growth market, competition is also intense, and a dynamic sales force with product knowledge and experience is an essential key to success in this industry segment.

The distribution and credit control mechanisms at DED:

The company has selected and appointed agents to buy and distribute their products in each district to the retailers in the district, with clearly defined geographic areas allocated for each agent within that district. All such agent appointments will have to be approved by the marketing manager of the company, who reports directly to the Managing Director.

While the company sells its products directly to the appointed agents, because of the product knowledge required to make the sales from the agents to retailers, sales are assisted by DED's sales force, who work with the staff of company-appointed agents.

Credit decisions from an agent to his /her retailers are made by an agent's officer, and DED sales force personnel promote and explain the technicalities of the products to these retailers. Some other areas of assistance by the sales force are to assist DED with feedback on an agent's overall effectiveness in achieving their sales targets given by the company, and to communicate to the agents concerned about any overdues by them to DED, upon receiving such reports from the finance division.

DED is equipped with a fleet of vehicles to make deliveries to agents' warehouses.

DED offers a two-month credit for the agents from the date of invoicing, and there are credit limits applicable for each agent formulated and recommended by the respective regional sales manager of DED that have to be approved by the Marketing Manager before becoming operational. There are altogether six DED regional offices across the country. Once approved, these limits are communicated to Accountant Credit Control, who reports to the Finance Manager of DED. The

finance manager is responsible for following and collecting any overdue receivables from the agents that exceed the credit period, with the help of officers from the finance division who are located in DED's regional offices.

Some information regarding the remuneration policy applicable to DED's sales force:

As for the HR policy of the company, incentives form an integral part of the remuneration package for the members of the sales force in the form of an attractive sales commission, which is payable to those who have exceeded their monthly targets set by the marketing division under the supervision of the marketing manager. There are two slabs applicable in the commission scheme where any sales that exceed the applicable monthly target earning is 1%, and when the sales exceed 15% of the target, the commission rate increases up to 2%. As a highly market-oriented company, the ownership is interested in growing market share, and the finance division is required to update its records daily so that the sales commissions applicable for each month are paid within two weeks.

Assuming you are the newly appointed Finance Manager of DED.

YOU ARE REQUIRED TO:

1.1 Discuss and argue the manner in which the organisational responsibilities are distributed at DED in the area of Credit Control, from a managerial control perspective

(10 Marks)

1.2 Given that the company's target market consists of price-conscious customers, cost management is of critical importance at DED. Apply Michael Porter's Value Chain to:

- a) **Present** any two areas of activities from each of the primary and secondary sections of the value chain framework, and explain what is meant by each of these selected areas of activities
- b) **Produce** an example under each activity as identified by you above that could be applicable at DED, and **briefly explain** how each of these could help to manage and rationalise cost structures at DED.

(20 Marks)

1.3 Produce two weaknesses in the existing sales force commission scheme that is currently in operation at DED and **discuss** the reasons for your conclusion. (Ignore any impact on profitability resulting from the sales force commission scheme in operation)

(10 Marks)

[Total 40 Marks]

Section II: Answer any two questions.

QUESTION NO 02

Raj, a qualified accountant, joins Trendy Jewellers Ltd. (TJL), a family company that has recently entered the market with a substantial investment, hoping to make an impressive entry into a competitive industry. The ownership of TJL is with a successful entrepreneur-Joesph Mather, who is in the field of transport /warehousing, and the decision to commence the new business was primarily driven by his daughter's educational background with a master's degree in the field of creative jewellery designing.

Welcoming Raj for this key managerial position with the company, with all other key functional heads and the CEO, is an experienced jewellery marketeer. Joseph stressed the importance of maximising profits as the principal, all-inclusive goal at TJL, with strict financial control

YOU ARE REQUIRED TO:

- 2.1. Argue** from a stakeholder perspective, the rationale underlying Joseph's directions to Raj at Trendy Jewellers.

(Total 15 Marks)

QUESTION NO 03

Exploration Tourism Ltd (ETL) is an SME that has been operating very profitably in the Tourism industry for over a decade. Being a partnership between two professionals in marketing and finance, both with previous industry experiences in a leading travel/tourism organisation, ETL has been offering differentiated tour experiences mostly in exclusive locations with extended days of relaxation within the country, and it has earned loyalty among groups of repeat customers. These groups enjoy frequent travel to different destinations, and most of them can be considered as falling within affluent customer segments with considerable disposable income. However, with the reduction of deposit interest rates in the recent past, ETL is experiencing a reduction in demand since most of the customers seem to have been deprived of the luxury of high interest income.

YOU ARE REQUIRED TO:

3.1. Recommend with justification any three strategies applying the framework of strategic options proposed as per Ansoff's Growth Matrix that ETL can evaluate to address the problem now facing the company.

(Total 15 Marks)

QUESTION NO 04

Prestige Ladies Salons (PLS) specialises in providing a range of high-quality salon services to customers at premium prices and currently operates at only two locations in Colombo. Upon the recent transition of PLS leadership to the second generation, they have decided to expand the geographic scope to three principal cities in the country, and based on the success of this new strategic initiative, further growth plans are under consideration.

One of the newly appointed directors has recommended the institution of strategic performance management and a control system at PLS to support and sustain this expansion initiative. You have been appointed to the newly created finance manager position of PLS and have been entrusted with designing and implementing a Balanced Scorecard (BSC) to serve as this integrated performance management and control framework.

YOU ARE REQUIRED TO:

4.1 Present under each of the four perspectives of a typical BSC framework, a sample objective and a possible initiative that can help to achieve each of these sample objectives, applicable to the business of Prestige Ladies Salons.

(Total 15 Marks)

Section III: Answer all the questions.

QUESTION NO 05

Zevon Importers Ltd (ZIL) is a relatively recent Sri Lankan importer of expensive household electronic equipment from a European manufacturer that offers suppliers credit of two months for any purchases from them. If the order quantities from ZIL are in excess of certain amounts, the credit is increased for up to four months. ZIL prefers to take advantage of these increased credit terms as a means of financing investment in working capital, which also enables the granting of credit facilities to distributors appointed by the company. ZIL sell directly to the distributors, who are subsequently obligated to maintain showrooms to make sales to the public and also make sales to a network of retailers.

Along with enhancing trade volumes, the Managing Director of ZIL as advised by one of his senior colleagues, decided to institute a Risk Management function and entrusted the responsibility of the same to the company's financial controller, Dilum.

Dilum commenced the risk management process at ZIL in consultation with senior managers of the company. The process commenced by identifying potential risks that could impact the company, and after recognising and listing all possible risks, he proceeded to further categorise the risks by type, such as Financial, Legal, Operational, etc.

Before Dilum presents his findings to the Managing Director, he feels it will be advisable to present the information in a more structured manner, which will help to identify and focus attention on high-priority areas.

YOU ARE REQUIRED TO:

5.1. Advise a method to evaluate and categorise high-priority risks from the identified risks as discussed in this mini-case scenario.

(06 Marks)

5.2. Briefly explain any three risks that ZIL is exposed to, as per the facts given in this scenario. Also, **recommend** a potential strategy to mitigate each of these risks.

(09 Marks)

(Total 15 Marks)

QUESTION NO 06

Drive Easy, Hassle Free (DEHF) is an SBU within Multi Business Incorporated (MBI), engaged in the business of renting vehicles for short, medium, and long-term hiring for individuals. The company has opted for the market segment for individuals with hiring needs instead of corporate customers, who exert bargaining power for reduced rentals compared to private customers.

MBI is an asset-rich entrepreneurial company with its presence in the construction and transport business. All accounting and financing activities are centralised at the head office, with all SBUs responsible for their operational activities. There are uniform accounting policies and practices applicable to all divisions, such as depreciation being computed on a reducing balance and the residual values being recommended by the respective divisional heads, to the finance department

The owner of MBI is a systematic and careful businessman; he requires all vehicles of the company to be used with great care. An attractive senior managerial incentive scheme rewards all SBU heads with a generous profit share of the respective divisions' final profits.

YOU ARE REQUIRED TO:

6.1. Present and briefly explain the concept of Risk appetite, which can be supported with an example as discussed in the above scenario that is applicable at DEHF. Also, **explain** how the risk arises that you are citing here at DEHF.

(08 Marks)

6.2. i) Discuss a possible risk that can arise in the area of financial performance and reporting at DEHF, evident from the facts given in the above scenario.

(04 Marks)

ii) Briefly **explain** how the risk arises that you have mentioned in 6.2. i) above.

(03 Marks)

(Total 15 Marks)

[Total 100 Marks]

-End of the Question Paper-