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Topic Break Down

Topic	No. of Questions
Topic 1, Case Study Wodd	19
Topic 2, Slide Company	22
Topic 3, Norland Telegraph (NEW)	4
Total	45

QUESTION NO: 1

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:

:

Requirement 1

The criticism from the environmental campaigns for sale of cheap fuel at the Arrfield airports is not a good sign but the prices of the fuel are not set by the Arrfield. In most of the countries the fuel price are regulated through Oil and Gas regulatory

authorities. As the Arrfield airports are providing the facilities to airlines to refill fuel at the airport which is necessary for the flying of the plane on commission bases, it contribute a significant portion of profit of the Arrfield.

The environmental campaigners criticism is on the usage use of fuel which cause carbon emissions. The Govt, of the Norland may set the price of the fuel in Norland and regulate the prices of the fuel in Norland. After the criticism Govt, of Norland may think to not allowing the fuel companies to pass the cheap fuel import to the airlines. This may be hostile of the Arrfield business. Many airline may choose the Norland for the flight operation due to gaining advantage of cheaper fuel refill.

As the airlines are buying more fuel which makes the plane heavier and burn more fuel which harm to the environment is a great concern. This could lead to legal and environmental litigation and penalties. The reputation risk is also here if corrective actions are not taken by Arrfield.

Requirement 2

As the Airfield also rely heavily on the non-aeronautical revenues to make profits and the it increase from a substantial percentage in 2020 as to the preceding year. The fuel companies operate in Arrfield airports which is intrinsic in the airport business. It will be difficult for the Arrfield to provide the fuel by itself. It is worthwhile that the Arrfield earning commission without involving the fuel operations.

As the Norland is being liked by the airlines for refueling its plane is good for the Arrfield to make profit. Arrfield earn commission as much as the airline buy fuel from fuel companies. But by decreasing the price of the fuel it is also worth mentioning that the Arrfield commission is also remains at lower side.

There are three elements in the scenario: 1- Higher sale higher commission. 2- Sale at lower price lower commission. 3- Reputational and environmental risk involved.

Requirement 3

The shareholders are major stakeholders of the company. They are key players have high amount of power and high level of interest. The Arrfield must communicate true affairs of the business to its shareholders. If the commercial logic of decision are not obvious then the poor understanding of the affairs may lead to chaos. The managers are representative of the shareholders and should do everything in the best interest of the shareholders. If they will make the decisions which are not logically understandable then, the shareholders may lose their trust in the management.

The shareholders must not be justified to the shareholder if they are not commercially valuable. Whether or not the decisions are profitable these may be communicated to shareholders which represent true picture of the decisions breach of CIMA ethical principles.

QUESTION NO: 2 - (SIMULATION)

CORRECT TEXT

From: Martin Wills, Head Geologist

To: William Seaton, Director of Finance

Subject: Reserves

Hi William,

I have reviewed the situation with respect to our "probable" or "2P" reserves, as disclosed in our latest annual report. I am sorry to say that we have to downgrade our figures with respect to reserves. I am recommending that all extraction activities cease for the foreseeable future on the North Atlantic and South Atlantic fields and that the proved reserves be downgraded from proved to probable.

I have to stress that this is not attributable to any past error on the part of the geologists. The world oil price has been depressed and the discovery of large deposits of shale oil in the USA suggests that the oil price will not recover for some time. That means that some oil wells that were commercially viable this time last year are no longer worth processing.

The oil remains under the rock and I have no doubt that we will restore operations in the long term.

We are by no means the only oil company to have been forced to take this action.

The one piece of good news is that the financial statements for the year ended 31 December 2014 have already been published. My understanding is that we do not have to withdraw them, so unless you put an advertisement in the press, we can carry on quietly trying to sort this mess out.

I have my best people working on ways to extract oil from our wells more efficiently, so we may be able to increase production over the next year or so.

Martin

ANSWER: Complete your answer and submit.

QUESTION NO: 3 - (SIMULATION)

CORRECT TEXT

Six months have passed. Wodd has announced its intention to create a biomass power station in its North Forest, to be fuelled by trees from the North Forest itself and also waste biomass products from other timber land owned by Wodd in that area.

The news has received mixed reactions. Younger residents of the small towns close to North Forest were delighted because their local economy will be boosted. Older residents and those living further afield within the region complain that the power station will pollute the environment and the destruction of the North Forest will blight an area of outstanding beauty. A residents' group has been established online, with support from Marland's largest environmental lobbying group, to block the proposal.

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

From: Marcus Svenson, Finance Director

To: Senior Finance Manager

Subject: Stakeholder issues

Hi,

I have sent you a link to the website created by the protestors against the biomass power station. This is causing serious problems because we still need to gain formal Government approval, although the Government supports biomass as an energy source as it is far cleaner and more sustainable than fossil fuel and far less controversial than nuclear.

Needless to say, the press has picked up on this and is starting to run the story.

We had reached agreements in principle with Marland Bank for funding for this project and with a civil engineering contractor for the construction work, but both are now nervous about signing contracts because neither wishes to be associated with an environmental scandal.

I need two things from you.

Please draft the body of a press release that we can issue in response to the claims on the protestors' website. Add a few comments to explain what your arguments are trying to achieve (I don't want us simply to state that we disagree with the protestors, I want us to offer meaningful arguments in response). Just write your draft as part of your reply to this email and I will circulate it to the other Board members for approval before we submit it.

Please suggest some safeguards that we can put in place to enable us to retain the support of the bank and the civil engineer throughout this project.

Marcus

ANSWER: Complete your answer and submit.

QUESTION NO: 4 - (SIMULATION)

CORRECT TEXT

Two weeks have passed since the article about Wodd's role in tax avoidance was published. Thankfully, the initial reaction was to condemn the celebrities who invest in tax avoidance and little was said about Wodd's role in facilitating tax-efficient investments.

You have received the following email from Sarah Johns, Marketing Director:

From: Sarah Johns, Marketing Director

To: Senior Finance Manager

Subject: Forestry certification

Hi,

I am told that you would be a good person to talk to concerning the practical implications of a new venture that has been proposed.

I have attached a sales brochure that I downloaded from Tabel's website. Tabel is a competing forestry company that has similar interests to our own. It has recently launched the certification scheme that it has described in its brochure. It has no competition for this certification in Marland because no other company has sought the qualifications required to offer an accredited Forest Certification Service.

Wodd has the necessary skills to offer a credible Forest Certification Service. Our forestry managers already aim to exceed all of the requirements set out by the global body. We also have a well-resourced internal audit department. I believe that we could transfer either forestry managers or internal auditors to a new external certification department. The transferred staff would complete the training required by the global body and would sit the associated examinations. We could then compete with Tabel's service.

I need your advice on the following:

Could you explain how you imagine that a typical certification investigation would work and the skills that it would require? That will help us to decide whether to approach forestry managers or internal auditors and will also enable us to describe the work that they would be doing if they agreed to be transferred.

What are the challenges associated with motivating and evaluating the investigators in the certification service and how might we address these?

Sarah

Reference Material:

<h2>Forest certification services</h2>	<h3>TABEL</h3>
<p>Sustainable forest management requires an informed and responsible attitude. The growth cycle can mean that it may take decades for the results of decisions to become apparent.</p> <p>There is now a global demand for the certification of forests as sustainable and for the timber harvested from sustainable forests to be identified as such.</p> <p>Certification reassures the communities who live in or near to forests, manufacturers who buy timber and timber products and consumers who buy the finished goods.</p> <p>A sustainable forest management policy will ensure the following:</p> <ul style="list-style-type: none">• Saplings are planted whenever trees are felled, usually in a ratio of at least two new trees for every felled tree.• Harvesting allows for the risk of soil erosion, with sufficient trees left standing to guarantee that soil will not be stripped by wind or rain.• Chemical pesticides are avoided as far as possible, with natural alternatives used whenever possible.• Biodiversity is maintained for both animals and plants.• Workers have safe and secure working environments.• The rights and interests of local communities are respected.• All relevant laws and codes of practice are adhered to.	<p>Table is presently the only forestry company to offer an accredited Forest Certification Service in Marland. Our inspectors have been trained in accordance with the requirements laid out by the global body for forestry certification.</p> <p>Our service involves an annual investigation, which leads to the award of a certificate to state that all relevant standards have been met. Certificate holders can then market their products on the basis that they have been certified as sustainable. They are also entitled to display the logo of the global accreditation body on their letterheads, websites and any other documentation.</p>

ANSWER: Complete your answer and submit.

QUESTION NO: 5 - (SIMULATION)

CORRECT TEXT

Daily Gazette

Draft story for comment

The singer, the forester and the tax adviser

Popular singer Barry Crauder is regarded as one of our more financially-aware personalities. He works hard, releasing at least one new album every year and serving as a judge on a popular talent show. He has a reputation for investing this income wisely, choosing to save for his future rather than squandering on the trappings of the show business lifestyle.

Crauder's popularity was severely damaged when it emerged that he pays little or no tax on the investment income derived from his portfolio of investments. That is because he has used one of the few remaining tax loopholes, namely investment in forestry. He owns significant areas of forestry in the far North of Marland. We estimate his earnings from those investments to exceed M\$800,000 every year and yet he has not paid a single Cent in tax on that income since he first invested in forestry ten years ago. In contrast, a typical fan who earns the national average wage of M\$28,000 every year will pay approximately

M\$7,000 in tax.

So, could we all invest in forestry? Well, not unless we can afford it. I posed as a wealthy business entrepreneur and approached several leading tax advisers. Most were interested in helping me to invest a seven figure sum to avoid tax, but warned that saving tax could be expensive in terms of fees and commissions.

Four firms recommended forestry as the ideal investment. All recommended Wodd, with whom all four claimed to conduct "significant business". They said that a typical client would give Wodd a bank draft and leave the purchase and subsequent management to Wodd in return for a fee. Most clients had never even seen the forests that they own and none ever need to make a management decision concerning the growth or sale of timber.

Sadly, investing in forestry is a rich person's pursuit. I was warned that companies such as Wodd are unlikely to entertain a potential client whose initial investment does not run into the tens of millions of M\$.

Please address any response to Sonia Jones, care of the Daily Gazette news desk, as quickly as possible.

ANSWER: Completelyouranswerandsubmit.

QUESTION NO: 6 - (SIMULATION)

CORRECT TEXT

From: Abdhulla Al- Waihabi, Regional Manager – Middle East – Slide

To: William Seaton, Director of Finance

Subject: Press article

Hi William,

I have just had a telephone call from a journalist at Business News to ask for a comment on a story that it plans to run. As you know, we purchased oil wells in the AZ40 field last year in order to bring them back to full production. We got the wells for a good price because the previous owner was struggling to maintain oil pressure and it appeared that the recoverable reserves in that field were close to exhaustion. Our experts worked out a plan to drill a hole and pump water into the well to force more oil to the surface. That is a standard industry technique. Our geologists are the best in the industry and so we are better than most at bringing wells back on stream.

It now appears that we are being blamed for an environmental catastrophe. Our pumping station is only one kilometre from the sea and there are reports of oil coming to the surface along the coast close to where we are operating. We have only just started operations and there are fears that we have ruptured a rock formation with our high pressure pumping.

I have ordered an immediate halt to all pumping activity, but the oil could continue to bubble up for years. The coastal area has some important coral reefs and there are fishermen who depend on shellfish that can be found there.

I told the journalist that she would have to wait for a response from Slide's Board. Business

News is a European newspaper, so any comment from you will carry more weight anyway.

I am sorry to be the bearer of such bad news.

Abdhulla

ANSWER: Complete your answer and submit.

QUESTION NO: 7 - (SIMULATION)

CORRECT TEXT

It is now three days since the start of the oil spillage crisis.

You have received the following email from William Seaton, Director of Finance:

From: William Seaton, Director of Finance

To: Finance Manager

Subject: Crisis management issues

Hi,

A quick update on the latest developments.

We have brought Block Associates in to lead the operations on dealing with the oil spill. It has assigned one of its leading consultants to take charge of this for us. We have paid Block Associates an annual retainer for many years, but we have never actually had to call on its services because we have been able to contain any environmental problems using our own resources.

Using Block Associates is going to be expensive. It insists on being free to bring in whatever equipment and personnel are required to resolve matters and to charge that on the basis of cost plus 25%. Our annual retainer is simply the cost of ensuring that it will respond on this basis if required.

We have had some murmurings of discontent already because our own engineers and geologists have made significant progress in identifying the cause of the spillage and they believe that they are capable of bringing it to a successful conclusion. They have suggested that it would be both quicker and cheaper to leave them in charge, while retaining the option to bring in Block Associates at a later date if they fail.

Firstly, what factors should we take into account in deciding whether to leave our own experts in charge of this operation rather than using Block Associates?

Secondly, how should we manage our relationship with Block Associates if we decide that it should be used?

Thirdly, two things: The Board is concerned that Slide's engineers and geologists have already become disillusioned by the decision to consider calling in Block Associates. We cannot afford to lose their commitment or to see them decide to leave

Slide in the longer term. I need you to provide me with some ideas as to how we can motivate them to give their best performance for the duration of this crisis AND to inspire them to remain in

Slide's employment after the crisis has been resolved.

William

ANSWER: Completelyouranswerandsubmit.

QUESTION NO: 8 - (SIMULATION)

CORRECT TEXT

You have just received the following email:

From: William Seaton, Director of Finance

To: Finance Manager

Subject: Oil reserves

Hi,

This email arrived from the Head Geologist earlier today. I am concerned that many of our colleagues understand very little other than rock formations and drilling reports. They certainly misunderstand accounting issues. I have already had some very confused discussions with the other members of the Board.

I need a very clear report from you that I can circulate to the other Board members. I am not particularly interested in the technical accounting rules. I do not think that you necessarily require an accounting standard to tell you that a particular disclosure is misleading.

I need your report to cover the following:

Should we make a public announcement of this information? I would like a clear indication of the implications for our relationship with our various stakeholders AND the ethical issues that you feel are relevant.

What are the implications for our share price? I would like your analysis to consider the factors that will indicate how our share price will change upon the announcement.

Thanks

William

The email referred to above can be found by clicking on the Reference Materials button.

ANSWER: Completelyouranswerandsubmit.

QUESTION NO: 9 - (SIMULATION)

CORRECT TEXT

Two months have passed since the threatened disruption of the building work on the biomass power station. The threat has been resolved and work is again under way on the development.

You have received the following email from Peter Sorchi, CEO:

From: Peter Sorchi, Chief Executive Officer

To: Senior Finance Manager

Subject: Wildlife survey

Hi,

I tried to obtain some trustworthy advice from your boss this afternoon, but have come away feeling quite unsure that we are on the same wavelength.

As you know, the law in Marland is very clear concerning the protection of rare species of wildlife. Before building work commences on our new power station the Government will send a survey team to check for the presence of protected species. The attached article shows how sensitive an issue this can be.

As part of our corporate social responsibility, every one of Wodd's forestry teams has a small team of wildlife officers, whose job is to survey the forest and to identify all natural habitats. Trees can grow undisturbed for many years in a commercial forest before they are harvested and so natural habitats can become well established. Our wildlife surveys enable us to limit the harm done when trees are felled.

One of Wodd's wildlife officers in the North Forest has submitted a report on the sighting of a rare species of bat in the area that will be cleared for the power station. The report states that these creatures tend to be difficult to observe because they only come out very late at night and tend to roost in dense forest. This could, potentially, delay the start of work for six months while the bats are captured and relocated. Relocating the bats will also be expensive.

The Finance Director's advice was to ask the wildlife officer to change the report, stating that the original version was submitted in error and that the sighting occurred in a completely different part of the forest, well away from the planned construction site. There is only a small possibility that the Government inspectors will find the bats during their own inspection. In the event that they do then Wodd can claim that it was unaware of the bats' presence.

This whole exchange raises a number of issues for me.

Should we spend shareholder money on protecting wildlife in our forests?

What are the implications for our internal control system of the Finance Director asking for this report to be changed?

What are the difficulties in motivating our wildlife officers and how might we overcome these?

The Chairman is always complaining about how the executive directors are too aggressive when it comes to making a profit. How might I address that concern?

I would appreciate your response on each of the above issues.

Peter

Daily Gazette

Newt delays building project



There could only be one winner in the battle between a ten tonne bulldozer and a two centimetre amphibian. It was, of course, the amphibian who triumphed.

Work was just about to commence on the foundations for a new shopping mall on the outskirts of Capital City when an official conducting a wildlife survey discovered that a pond in the middle of the site was home to a colony of rare newts. This brought work to a halt until immature animals had reached a stage where they could be safely captured and moved to a safe location. This delayed work by more than two weeks and cost the developers a great deal of money.

ANSWER: Complete your answer and submit.

QUESTION NO: 10 - (SIMULATION)

CORRECT TEXT

Twelve hours have passed since you received the telephone call concerning the oil spillage.

You receive the following telephone call from William Seaton, Director of Finance:

“The press has got a hold of the story about the oil leak. Our share price has taken a major hit. Indeed, Slide’s market capitalisation has fallen by a third since the stock exchange opened for business. There is a lot of loose talk in the press about the knock-on effect of this crisis for Slide. It has not escaped anybody’s notice that there are news teams showing injured wildlife. There is also a great deal of footage being broadcast on the other sites around the world where we are revitalising oil wells using the same technology that was in use at AZ40.

Our experts have only just arrived at the spillage site. While they were on the corporate jet they emailed their initial thoughts, based on their understanding of what went wrong. Our engineers anticipate a major operation to block the leak by pumping cement into the bore hole at a low pressure. This will be expensive, but the cost will be less than one tenth of the reduction in our market capitalisation.

I need an email from you:

Firstly, I need a clear explanation of the key risks that Slide now faces because of this crisis. I am only interested in those with a high risk and high consequence and I need you to justify those classifications because the Board will need to prioritise its responses.

Secondly, two related issues: I need you to explain why Slide's share price has fallen to such an extent AND to recommend, with reasons, whether we should release our costings of the repair scheme at this time.

It goes without saying that I need this urgently."

ANSWER: Complete your answer and submit.