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CS3 Exam

CIMA Strategic

Questions & Answers

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Question: 1

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

Question: 2

The Director of Finance, William Seaton, has invited you into his office.

“This will come as a bit of a shock, but the Board has decided that it would be in our best interests to relocate our Head Office from Kayland to the Middle East. We have interests there, including a regional office, already. We know that the oil industry is welcome and there are several governments which are very open to such foreign direct investment from the West.

Nothing has been decided for certain, but there are compelling tax advantages to us relocating. We would also be subject to slightly less restrictive legal requirements. We can retain our listing on the Kayland stock exchange, albeit as a foreign company.

Things are very much under consideration at the moment, so please don't tell anybody about this conversation.

I want to check that I have thought of everything at the strategic level before we make an irreversible decision to move. I need you to write me a report on the following:

What are the strategic implications of moving our Head Office from Europe to the Middle East? What are the strategic risks that might arise and how might we deal with them?

I need to have your thoughts soon because the Board is holding a special meeting this afternoon.” Complete your answer and submit.

Question: 3

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

Complete your answer and submit.

Question: 4

Six months have passed since you briefed William Seaton, Director of Finance on the relationship between Slide and Fouce Oil.

You have been called into William Seaton's office:

"We had a visit from the Chief Executive Officer of Fouce Oil yesterday. We had not received any prior notice of the purpose of the visit and assumed that he simply wished to make a courtesy call while he was visiting Fouce Oil's subsidiary in this country. Instead, he came to initiate discussions over a strategy of collaboration on oil exploration.

Rather than explain things myself, please read the memorandum of understanding that he has asked us to sign. It is self-explanatory.

Once you have read the memorandum, I would like you to email me your thoughts on the following:
The suitability of this proposal for Slide.

The likelihood that Fouce Oil's strategic interests will clash
with our own. The strategic risks that are likely to arise
because of this arrangement.

The manner in which this strategic relationship should be communicated to the stock market.

I realise that this is a challenging request, but I need your response quickly because we need to respond to Fouce Oil."

The Memorandum of Understanding can be found by clicking on the Reference Materials button.
Complete your answer and submit.

Question: 5

You received a telephone call at home early in the morning, asking you to check your emails. The following email was waiting for you:

From: William Seaton,

Director of Finance

To: Finance Manager

Subject: Public relations crisis

Hi,

This email arrived from the Head of our Middle East office just now. They are a few hours ahead of us, so herang me at home to make sure that I had seen his message.

We have a few hours before the news article will be published, so I need to make the best use of that time in order to limit the damage to Slide. Your priority is to protect our reputation because I have already woken up the engineers and geologists and they are going to deal with the actual oil spillage.

I am not thinking too clearly, so I need you to provide some initial thoughts on the following:

Should we use our business relationship with Business News to have them withdraw the story? We are a major advertiser and we spend millions with them every month. What are the advantages and disadvantages?

Should we respond with the facts as we know them? All we know for certain is that there have been reports of oil contamination in an area that has countless oil facilities nearby, and so we could deny all responsibility, at least until our experts have had the chance to get there and to investigate.

If we do decide to make a public announcement then we will need to have a plan in place. We need to assemble a team to deal with the press. How should we structure our media response team?

What are the key factors that the Board should consider when communicating with the press? Explain why the factors that you have identified are important.

I realise that it is still very early, but I need your thoughts

very quickly. Thanks

William

The email referred to above can be found by clicking on the Reference Materials button. Complete your answer and submit.

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