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Question: 1

William Seaton, the Director of Finance stopped you in the corridor a week after the Head Geologist's announcement that reserves had been overstated:

"We informed the stock exchange that our reserves had been downgraded and our share price has taken a solid hit. We need to work towards making sure that this is never repeated.

The Board is actively considering some changes that we hope will improve our forecasting system. I am not convinced that the suggestions will work. Frankly, if we could predict the future with certainty then I would have us stop looking for oil and start selling forecasts.

I would like you to work through the proposals that have been put forward and to recommend on their adoption, with changes if you think it necessary. The issues that we are most seriously considering are:

- A suggestion that Big Data could be used to monitor oil prices. Do you think this would be a sensible way to proceed?
- A suggestion that we should update our reserves information on the company website in real time. Do you think that would be an effective communication strategy?
- Finally, we have considered a number of issues surrounding the motivation and inspiration of our geologists. Two quite distinct schemes have been proposed. Firstly, some Board members believe that our geologists should be rewarded in relation to the accuracy of their forecasts. Bonuses will be paid on the basis of correct initial evaluation of wells. The bonus will increase if a well that was initially identified as commercially viable goes into production and will decrease if a well that was classified as viable is reclassified as unproductive.

Secondly, other members of the Board believe that there should be a greater degree of accountability on the part of geologists. The incorrect classification of a well's potential could be treated as a disciplinary matter. Please provide a detailed analysis of EACH of those suggestions."

Answer:

Complete your answer and submit.

Question: 2

The Director of Finance, William Seaton, has stopped you in the corridor:

"Your report was really helpful, but the Board is still considering the implications of that email from Jan Archibald at Fouce Oil. I need to make a more detailed report to the Board and I would like you to draft it for me.

I know that we have owned and operated oil wells in the past, but that has always been with the intention of finding a buyer who is prepared to pay a realistic price. We have chosen never to think about the implications of keeping wells.

I need a report from you that covers the following issues:

- The key political risks of retaining our interest in these oil wells, with particular emphasis on high consequence, high

likelihood risks.

- A suitable response to each of your political risks.
- An overview of how changes in the global economy and the demand for oil could affect the decision to proceed.
- The challenges associated with putting together a management team to take charge of the production side of this proposed new strategy.

I realise that this is a lot to ask of you, but I need you to move quickly because of the interest from our biggest shareholder.”

Answer:

Complete your answer and submit.

Question: 3

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:

Forest certification services

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.

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.

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.

A sustainable forest management policy will ensure the following:

- 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.

Answer:

Complete your answer and submit.

Question: 4

You are sitting in your office when you hear Marcus Svenson, the Finance Director, speaking on the telephone. You can hear only Marcus' side of the conversation:

"Hello, I would like to speak to Sally Walker please. It is Marcus Svenson here. (pause)

Hi Sally, you contacted me six months ago to discuss a job opportunity that you thought I'd be suitable for. I said that I didn't wish to pursue it at that time because I was committed to Wodd. Things have changed since then and I would like to be considered for a finance directorship in another company. (pause)

Yes, I'm still with Wodd. (pause)

Yes, I realise that there was an unfortunate story in the business press about the problems that the weak USD is causing us, but there was very little that I could do to prevent that. (pause)

I am sorry to hear that. I had hoped to move on." (sound of telephone hanging up and door opening)

Marcus discovers that you are sitting at your desk and realises that you would have heard his side of the call.

"Please don't tell anybody what you heard. Would you regard it as unethical to respect my privacy?

I suspect that the CEO knows that I am thinking of leaving. He commented on the need for Board members to be loyal to Wodd at the last Board meeting. But don't you agree that the shareholders can better protect themselves against currency fluctuations than the directors?

The crazy thing is that I suspect that the Chairman will dismiss me next month. If that happens, I get a year's salary as a severance package. That will really annoy the shareholders. How can I justify accepting the severance package if I am effectively being dismissed for failing to manage Wodd's finances properly?

I need to explain at the next Board meeting why it would have been difficult to evaluate the risk of the USD weakening. According to an article I read, it has been picked up as a serious problem for us. How would you advise me to explain that?"

Reference Material:

Business Weekly

Wodd's Dollar blues

Wodd's Chief Executive warned shareholders that the company was struggling to maintain sales volume, even with a reduced profit margin. The weak USD is making it difficult for the company to compete with US forestry companies.

The position of several key Board members is thought to be under threat.

We await developments with interest.

Answer:

Complete your answer and submit.

Question: 5

Daily Gazette

Celebrities flock to release tax returns

Comedian Madd Wilkins is the latest celebrity to post his tax returns online. The comedian earned M\$1,600,000 from his sell-out tour and from the sale of DVDs. He paid tax of M\$608,000 on that income. The comedian quipped, "there's nothing funny about paying tax, but then there's nothing very funny about my act either so it's only fair that I should pay the full whack".

Public concern about the tax benefits enjoyed by wealthy celebrities using artificial schemes such as investing in forestry to minimise their tax bills has led to closing tax loopholes topping the political agenda. Many wealthy individuals have volunteered their tax files in order to reassure the public that they are not benefitting from such schemes.

Answer:

Complete your answer and submit.

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