

# DUMPS ARENA

## Strategic Case Study Exam 2021

Cima CS3

Version Demo

Total Demo Questions: 10

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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
<b>Total</b>	<b>45</b>

**QUESTION NO: 1 - (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: Completelyouranswerandsubmit.**

**QUESTION NO: 2 - (SIMULATION)**

## CORRECT TEXT

Six months have passed since you first heard of the possibility that Slide might relocate its Head Office to the Middle East.

You have been called into William Seaton, the Director of Finance’s office:

“After lots of deliberation, the Board has reached a final decision on the Head Office move.

It has been decided that we will relocate to the Middle East.

I need you to draft a report on the following matters:

First of all, we need a strategy for the choice of country to which we are going to relocate. I need you to think about the strategic decisions that will have to be taken so that we obtain the best possible value from the relocation.

Secondly, we have to think about the change management issues with respect to Slide's senior managers. We have a good team of senior managers and Board members and we wish to see them relocate with the company. I need your thoughts on this.

Thirdly, there will be significant change issues for the other staff members. We cannot justify moving all of them to the Middle East, but we will be relying on them to ensure an orderly transition from the current Head Office to the new one. They will be busy for several months, then most will be made redundant. The rest will be offered new jobs with Slide because we will need a scaled down administrative presence in Kayland. Again, I need your suggestions for this.

Finally, we need to put together a transition team to deal with the many administrative issues that the move will create. I need you to suggest a clear job description for the transition team that explains the main operational tasks required, so that the directors can be left free to focus on the strategic management."

**ANSWER: Complete your answer and submit.**

### QUESTION NO: 3 - (SIMULATION)

#### CORRECT TEXT

Four weeks have passed since your encounter with the Chairman. The directors of both companies were informed of the proposal to merge two weeks ago and the public was informed two days ago.

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

From: Marcus Svenson, Finance Director

To: Senior Finance Manager

Subject: Merger negotiations

Hi,

Please see the attached table and also a comment that I downloaded from a Wodd shareholder's blog, showing the market capitalisations for Wodd and Darrell both before and after the merger announcement.

If I am reading this correctly, it would appear that we are suffering at the hands of Darrell because the market believes that it is getting more of the benefit from the merger. This is before the terms of the merger have even been announced.

I need you to do two things:

Please draft a formal response to Market Blogger's post. We will insert this into his blog as a formal response from Wodd's Board and we will also email it to all shareholders.

Please draft an outline strategy for negotiating with Darrell's Board. Clearly, I want Wodd's shareholders to get the best possible deal out of this merger.

Marcus

Reference Material:

	Wodd	Darrell
Before announcement	M\$ 62.00	M\$ 68.00
After announcement	M\$ 77.00	M\$ 108.00

**ANSWER: Complete your answer and submit.**

#### QUESTION NO: 4 - (SIMULATION)

CORRECT TEXT

Newsweb

Protesters block bulldozers

Attempts by Wodd to harvest some of the hardwood trees from their newly acquired

Bravadorian forest suffered a further setback yesterday.

Wodd's bulldozers have been unable to make any headway in clearing the site for the company's first logging base because environmental groups from several countries have descended on the Bravadorian jungle to protest the proposed destruction of the forest and the associated harvesting of many rare hardwood trees. Protestors have chained themselves to trees and to heavy equipment, making it impossible to commence the clearance operations.

Wodd's problems have been compounded by the recent discovery that a tribe of forest dwellers has lived in the forest for many generations, making little or no contact with the outside world in the process. The tribe is effectively nomadic, moving from one part of the forest to another, surviving by hunting game and gathering edible vegetation and relocating when food starts to become scarce. The environmental protestors claim that Wodd's activities will make it impossible for this tribe to continue with its traditional way of life.

Wodd claims to adhere to The Forestry Stewardship Council of Marland's ten principles, which include the assurance that "The legal and customary rights of indigenous peoples to own, use and manage their lands, territories, and resources shall be recognized and respected."

Reference Material:



**ANSWER: Complete your answer and submit.**

**QUESTION NO: 5 - (SIMULATION)**

**CORRECT TEXT**

The formal merger with Darrell has been negotiated and the legal formalities have been completed. The two company management teams are working on the integration of the two businesses.

You receive an email from Peter Sorchi, the Chief Executive of the merged company:

From: Peter Sorchi, Chief Executive Officer

To: Senior Finance Manager

Subject: Integration of IT and treasury

Hi,

I need you to advise me on a couple of matters. The attached press clipping shows how sensitive this is.

We need to integrate the IT and treasury functions of the former Wodd and Darrell. I thought that it would be a simple matter of identifying the common ground and slimming down both companies' departments to cover the new entity, but I have the heads of both IT and treasury from each company arguing that their approaches are better for the merged group and that they should take the lead.

Wodd's Treasurer claims to be an expert in natural hedging of currency risks and Darrell's argues that her department was highly successful because it makes excellent use of derivatives for hedging. Both agree only on the fact that they cannot work together. I am afraid that I have to agree with them on that and the Board will have the difficult decision of choosing between them.

I have the opposite problem with the IT function. The two Heads of IT are excited to be able to combine their databases and to develop their respective interests in Big Data. They claim that we should retain all of the professional staff in both departments and possibly even expand the merged IT Department beyond that. Given the rationalisation in all of our other functions, I do not think that we can agree to that, but I would hate to throw away a worthwhile opportunity.

Please give me your thoughts on the following:

What approach to hedging is more likely to meet our needs: natural hedging or heavy use of derivatives?

Ignoring hedging, what other factors should we consider in deciding between the two treasurers?

Are the two heads of IT likely to be correct in arguing that we need to retain all existing IT staff in order to exploit synergies in data, particularly opportunities to leverage Big Data?

What would the challenges be in motivating them to reduce their joint staffing levels and how might we deal with these?

Peter

**ANSWER: Completelyouranswerandsubmit.**

### QUESTION NO: 6 - (SIMULATION)

CORRECT TEXT

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

From: Marcus Svenson, Finance Director

To: Senior Finance Manager

Subject: News reports

Hi,

I have sent you a link to a news site on the internet. Things are getting complicated in

Bravador.

Every Board member has been asked to attend a brainstorming session this afternoon, before the CEO flies out to Bravador this evening. We will be considering the following four matters:

Is it acceptable for us to develop this forest, given the commitment that we have made with respect to indigenous peoples' rights? They have been quoted at the end of the news article.

Is it fair for the environmental protestors to complain that our operations are unsustainable?

Would it be unethical to offer to build a village, with a proper school and medical clinic, for the tribe and to offer them work in our forestry operations?

Is it really a good idea for the CEO to fly to Bravador just to appear on the television news in his boots and overalls?

Please email me your thoughts on each of these matters before I leave for the meeting this afternoon.

Marcus

**ANSWER: Complete your answer and submit.**

## QUESTION NO: 7 - (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: 8 - (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: 9 - (SIMULATION)**

## CORRECT TEXT

Memorandum of Understanding between Fouce Oil and Slide

It is proposed that Fouce Oil and Slide will temporarily combine their exploration activities, with Slide taking overall control in recognition of the greater expertise of its professional exploration staff.

This collaboration will work as follows:

1. Slide will take responsibility for the management and operation of all future exploration activities for the two companies, with effect from 1 October 2015.
2. Fouce Oil will second all of its professional oil exploration staff to Slide. Fouce will continue to employ these staff and will pay their salaries.
3. Slide will brief Fouce Oil's professional oil exploration staff on all operational matters relating to exploration activities for the duration of this arrangement.
4. The provisions of paragraph 3 will apply to any projects in which Slide participates with third parties on a farm-in or other joint venture basis.
5. In recognition of Slide's greater expertise, Fouce Oil will offer its entire portfolio of existing exploration rights to this venture, without any charge to Slide. Fouce Oil will also pay for 55% of any and all exploration costs, leaving Slide responsible for the remaining 45%.
6. The revenues from all successful discoveries will be shared equally by Slide and Fouce Oil. In the event that either party wishes to sell an oil well, the other will have the option of purchasing the other's rights for 50% of the well's agreed valuation.
7. This arrangement will be subject to review at the end of five years and annually thereafter. In the event that either party wishes to discontinue the arrangement, all ongoing exploration projects will be drawn to an orderly conclusion.

Signed

Thomas Yip, Chief Executive Officer, Fouce Oil

Andrew Jones, Chief Executive Officer, Slide

14 May 2015

**ANSWER: Complete your answer and submit.**

#### QUESTION NO: 10

**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 prices 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.