Chapter 02: Section 1

Strategic Management Accounting Techniques: Questions

Kaizen Budgeting

Practice Question 36:

As the Financial Controller at Trident Logic Ltd., you operate in a highly dynamic technology and software development environment. The company faces fluctuating project pipelines, rapidly evolving technology, and intense competition for talent. The current static annual budget has proven inadequate for this volatile context. The Chief Financial Officer is frustrated with the limitations of the existing process.

A large, unexpected project win in Q2 2024 rendered the IT infrastructure budget inadequate, while a slowdown in the European market made the sales targets for that region unrealistic by mid-year.

The CFO wants to move to a more adaptive system and asks: **How can a rapidly growing IT services firm implement a rolling budget framework to manage resource allocation and enhance forecast accuracy in a volatile market where project demands and talent costs are constantly changing?**

You must now propose a rolling budget framework that addresses management's concerns about potential complexity and the challenge of maintaining forecast accuracy.

To address the CFO's requirements, you will develop a comprehensive proposal for a 12-month rolling forecast system. This framework will replace the static annual budget with a more responsive planning approach.

Practice Question 37:

BlueGem Textiles' garment manufacturing division has a standard material cost of Rs. 2,500,000 per month. Management implements a Kaizen budgeting approach, setting a continuous cost reduction target of 0.5% per month. Calculate the budgeted material cost for the next three months.

Selecting Budgeting Approach

Practice Question 38:

As the Senior Management Accountant at PalmNest Foods Pvt Ltd, you face a complex challenge. The company i a rapidly growing FMCG business navigating a dynamic market with changing consumer tastes, competitive pressures from established players like Elephant House, and supply chain volatility.

Its expansion into new product lines (Convenience Foods) and channels (e-commerce) requires a budgeting system that can support growth while maintaining cost control. The leadership team is debating its budgeting strategy for the next fiscal year. The CEO, Ranjith Perera, wants a budget that supports innovation and rapid expansion into new product categories.

The CFO, Kavitha Perera, is concerned about rising input costs and wants a system that enforces cost discipline. The current incremental budget is seen as too simplistic.

What systematic process should the management of a growing FMCG company use to select a budgeting approach that balances strategic growth initiatives with the need for operational efficiency and cost control?

You must now lead a workshop to guide the management team through a structured selection process, using a formal framework to evaluate the suitability of ZBB, ABB, and a Rolling Budget.

Incremental Budgeting

Practice Question 39:

BlueGem Textiles, a textile manufacturing company, is preparing its budget for the upcoming year. The production department's budget for the previous year was Rs. 12,500,000. The company anticipates a general inflation rate of 6%. Additionally, due to a new contract, production volume is expected to increase by 10%. Calculate the incremental budget for the production department.

Zero Based Budgeting

Practice Question 40:

The IT department of Taprobane Finance has a total discretionary project budget of Rs. 20,000,000 for the next year. The department manager has prepared four decision packages for consideration. The packages must be ranked to determine which will be funded.

Package ID	Description	Cost (Rs.)	Expected Benefit (Rs.)
A	Cybersecurity Upgrade	8,000,000	12,000,000
B	New CRM System	10,000,000	16,000,000
C	Employee Training Portal	5,000,000	6,000,000
D	Data Analytics Platform	7,000,000	11,200,000

Table 1.1.2: Decision Packages for IT Department

Beyond Budgeting

Practice Question 41:

As the Head of Strategy & Operations at Citrus Advertising, you face mounting pressure from the CEO, Kavindi Perera. She believes the annual budget process has become a barrier to agility in your fast-paced, project-based environment. Creative teams report they cannot pursue promising new ideas because funds remain locked into pre-approved line items.

The current performance management system, based on hitting revenue targets, discourages the risk-taking essential for creative excellence.

How could the leadership of a creative advertising agency apply the process and leadership principles of Beyond Budgeting to empower its teams, foster innovation, and improve performance management without relying on a restrictive annual budget?

Your task is to develop a proposal that demonstrates how these core principles could create a more empowered and adaptive culture.

Practice Question 42:

As the Chief Operating Officer of Zenith Logistics Lanka Pvt Ltd, you face constant pressure from market volatility. The logistics industry experiences continuous fluctuations in fuel costs, freight rates, and customer demand. Your company's traditional annual budget restricts its ability to respond effectively to these dynamics.

Your CEO, Shalini Perera, recently learned about a European competitor that successfully implemented Beyond Budgeting, achieving a 15% improvement in fleet utilisation and a 10% reduction in operating costs. She is intrigued by these results but remains sceptical about applying this model to your Sri Lankan operations.

She needs to know: **What would the transformation journey map look like for a logistics company considering a move to a Beyond Budgeting model, and what are the critical success factors it must ensure are in place?**

Your task is to analyse the competitor's case, map out a potential transformation journey for Zenith, and identify the absolute must-have success factors before considering a pilot programme.

Practice Question 43:

Taprobane Finance, a financial services institution in Sri Lanka, has adopted a Beyond Budgeting approach. Instead of targeting a specific budget for costs, its primary performance goal is to achieve a better Cost-to-Income ratio than the average of its main competitors.

Given Information:

- Taprobane Finance's Total Operating Income for the year: Rs. 45,000,000,000
- Taprobane Finance's Total Operating Costs for the year: Rs. 24,750,000,000
- Competitor data for the same period:

Competitor	Cost-to-Income Ratio
Competitor A	58%
Competitor B	53%
Competitor C	56%

Practice Question 44:

You are the Financial Controller at BlueGem Textiles Pvt Ltd, a textile manufacturer operating in a highly competitive global market. The company faces fluctuating raw material costs for cotton and dyes, with intense pressure on margins from lower-cost producers.

During your presentation of the annual budget to the board, CEO Dinesh Fernando expresses his frustration. He notes that last year's budget became obsolete within six months due to a 10% spike in cotton prices and a major client shifting its order volume. While wanting a more responsive system, he remains wary of a complete overhau

He asks you directly: **How can a traditional textile manufacturer, facing intense price competition and input cost volatility, assess the comparative advantages of adopting 'Better Budgeting' improvements over its current static annual budget?**

Your task is to prepare a proposal that clearly contrasts the current traditional process with a "Better Budgeting" approach and provides a clear assessment of the comparative advantages.

Practice Question 45:

As the Director of FP&A at Lotus Construction Ltd., you face a pressing challenge with the company's current budgeting system. The CFO has identified critical limitations in the existing one-size-fits-all approach.

While the traditional project budget provides excellent cost control for the two-year expressway upgrade project, it proves completely inadequate for the innovative Lotus Smart City development. The sales team requires flexibility to respond to market demand, and the development team needs autonomy to innovate.

The CFO poses this question: **How can a construction and development company design an integrated, hybrid budgeting structure that provides tight cost control for long-term infrastructure projects while fostering the agility needed for its speculative real estate developments?**

Your task is to design a new integrated system that applies different approaches to different parts of the business.

Practice Question 46:

Trident Logic Ltd. uses a traditional annual budget. The revenue budget for 2024 was approved in December 2023. It is now the end of March 2024, and management finds the original budget is already outdated due to changing demand for its enterprise software solutions. They decide to implement a quarterly rolling forecast.

Given Information:

- **Original Annual Budget (2024):**
  - Q1: Rs. 45,000,000
  - Q2: Rs. 50,000,000
  - Q3: Rs. 55,000,000
  - Q4: Rs. 60,000,000
- **Actual Revenue for Q1 2024:** Rs. 50,000,000 (higher than budgeted due to a successful marketing campaign).
- **Assumptions for New Forecast:**
  - The strong performance is expected to continue. Management revises the forecast for Q2, Q3, and Q4 of 2024 upwards by 5%.
  - The forecast for the new period, Q1 2025, is expected to be 10% higher than the original Q1 2024 budget.

Task: Prepare the new 12-month rolling forecast for the period April 2024 to March 2025.

Practice Question 46:

Palmnest Foods manufactures bottled fruit beverages. The company prepared a static budget for May based on a planned production volume of 10,000 cases. However, due to high demand, the company actually produced 12,000 cases.

Given Information:

- **Budgeted Costs (for 10,000 cases):**
  - Variable Costs:
    - Direct Materials: Rs. 100 per case
    - Direct Labour: Rs. 50 per case
    - Variable Overheads: Rs. 20 per case
  - Fixed Costs:
    - Factory Rent: Rs. 300,000 per month
    - Supervisor Salaries: Rs. 200,000 per month
- **Actual Results (for 12,000 cases):**
  - Direct Materials: Rs. 1,260,000
  - Direct Labour: Rs. 636,000
  - Variable Overheads: Rs. 250,000
  - Fixed Costs: Rs. 510,000

Task: 1. Prepare a performance report comparing actual results to the static budget. 2. Prepare a flexible budget for the actual activity level of 12,000 cases. 3. Prepare a revised performance report comparing actual results to the flexible budget.