

Chapter 02: Section 2

Practice Question 47:

As the Group Management Accountant at Mango Holdings, you are reviewing the FY 2025 budget submissions from the company's five divisions. The Textiles division, despite facing intense margin pressure from competitors, has submitted a budget requesting a 15% increase in operating expenses, citing 'precautionary resource needs'.

The Agriculture division's revenue forecast appears overly pessimistic, potentially creating budget slack, particularly given that global rubber prices are expected to stabilise. Meanwhile, the Renewable Energy division's projections seem unrealistically optimistic, possibly reflecting optimism bias that could lead to capital misallocation.

How can the Group CFO address suspected budget gaming and cognitive biases during the annual planning cycle to ensure resource allocation is based on organisational merit rather than divisional manoeuvring?

You must prepare a comprehensive recommendation that addresses these budgetary concerns and establishes a more objective planning process.

Practice Question 48:

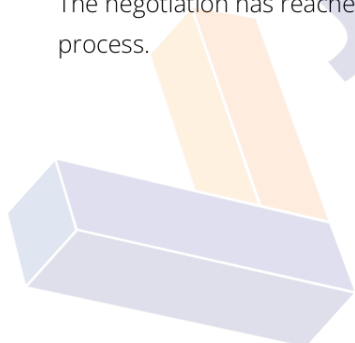
As the Chief Financial Officer at Citrus Advertising Ltd., you are overseeing the annual budget allocation. The Head of Creative holds significant expert power from numerous industry awards.

He has formed a coalition with the Head of Media Planning to lobby for a larger budget share for high-production TV commercials. They argue this is necessary to maintain the agency's creative reputation. Conversely, the Head of the Digital & Social division has strong network power with emerging tech clients.

She argues for a budget shift to build a proprietary data analytics platform, aligning with market trends.

How should you navigate the competing demands and political maneuvering of the divisional heads during the annual budget allocation to ensure investments align with the agency's shift towards digital services?

The negotiation has reached a stalemate, and you must resolve the departmental rivalry before it derails the process.



Practice Question 49:

As the Group Management Accountant at Serendib Hospitality, you face a critical impasse at the annual capital budget meeting. The company operates five distinct properties—luxury city, upscale mountain, luxury coastal, midscale airport, and eco-boutique—each with its own general manager and performance targets. The total capital requests exceed Rs. 850 million against an approved budget of Rs. 500 million.

The GM of Serendib Beach Resort demands a major renovation budget, arguing it is vital to compete with new international chains entering the market. The GM of Serendib Grand Colombo presents data supporting investment in a new MICE facility to capture the growing business travel segment.

The GM of Serendib Nature Retreat requests funds for a sustainability project offering high brand value but requiring a longer payback period. The GMs have begun lobbying the COO directly, making the process highly political.

How can you use the balancing role framework to resolve this deadlock over the annual capital expenditure budget and ensure investments align with the group's overall goals?

Your task is to restore objectivity to the process and guide the organisation toward a decision that serves its long-term interests.

Practice Question 50:

Trident Logic Ltd. is preparing its annual budget. The Sales Manager for the Enterprise Solutions Division and the Operations Manager have submitted their initial forecasts. As the Management Accountant, you have gathered additional data to assess their reasonableness.

Given Information:

- **Sales Manager's Forecast:**
 - Budgeted Sales Revenue: Rs. 75,000,000
- **Operations Manager's Forecast:**
 - Budgeted Service Delivery Costs: Rs. 48,000,000
- **Management Accountant's Analysis:**
 - Based on market growth analysis and historical performance, a more realistic sales forecast is Rs. 82,500,000.
 - Based on current resource utilisation rates and efficiency improvements, a more realistic service delivery cost estimate is Rs. 45,000,000.

Task: Calculate the budgetary slack for revenue, costs, and the overall impact on budgeted profit.

Practice Question 51:

To discourage budget gaming, Mango Holdings is redesigning its bonus scheme for subsidiary managers. The maximum potential bonus is Rs. 1,000,000.

Old Scheme: A flat bonus of Rs. 750,000 is paid if Actual Profit is greater than or equal to Budgeted Profit.

New Scheme: The bonus is split into two parts:

- **Target Achievement (60% of bonus):** Based on achieving the profit target.
- **Forecast Accuracy (40% of bonus):** Based on how close the budget was to the actual result. The accuracy payout is reduced as the forecast error increases.
 - Formula: Accuracy Payout = Max Accuracy Bonus × (1 - Forecast Error %)
 - Forecast Error % = $\frac{|\text{Actual Profit} - \text{Budgeted Profit}|}{\text{Actual Profit}}$

Scenario Analysis:

- **Manager A (Creates Slack):** Budgets a profit of Rs. 20,000,000. Actual profit is Rs. 30,000,000.
- **Manager B (Accurate Forecaster):** Budgets a profit of Rs. 28,000,000. Actual profit is Rs. 30,000,000.

Task: Calculate the bonus for each manager under both the old and new schemes.

Practice Question 52:

As the Chief Risk Officer at Taprobane Finance Ltd., you receive an anonymous report through the company's ethics hotline. The report alleges that the IT department's recently approved Rs. 100 million budget for a new core banking module was awarded to a vendor whose CEO is the brother-in-law of the Head of IT.

The whistleblower claims the procurement process was rushed, and two other qualified vendors were dismissed without clear documented rationale. This situation poses significant risk to the company's reputation and could attract regulatory scrutiny from the Central Bank of Sri Lanka.

The report raises a critical question: **How should the Chief Risk Officer of Taprobane Finance Ltd. respond to an anonymous whistleblower report alleging that a significant budget allocation for a new software system was awarded to a vendor with close personal ties to a senior manager, potentially violating the company's code of conduct?**

Your task is to investigate these allegations and determine the appropriate response.

Practice Question 53:

As the Chief Financial Officer at Lotus Construction Ltd, you oversee the financial viability of a new public-private partnership affordable housing project. The project operates under an extremely tight budget. Your procurement manager has identified a new type of concrete block that would save Rs. 50 million, helping meet the project's affordability targets.

However, your Chief Sustainability Officer reports this material has a significantly higher carbon footprint and lower long-term durability than the company's standard LEED-certified materials. Using it would compromise the "Lotus GreenBuild" brand promise and potentially lead to higher maintenance costs for low-income homeowners. The CEO is pressuring you to approve the cheaper material to protect the project's thin profit margin.

How should you, as the CFO of Lotus Construction, use an ethical decision-making framework to decide whether to approve the acquisition of cheaper, non-compliant materials to secure project viability, when this action conflicts with the company's public sustainability commitments and quality standards?

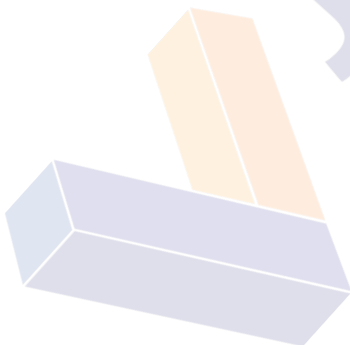
You must prepare a recommendation for the Board's ethics committee.

Practice Question 54:

As the Chief Financial Officer at BlueGem Textiles, you face a formal grievance from the night shift supervisor in the dyeing division. The company recently invested Rs. 200 million in a new EcoJet dyeing machine that is faster, safer, and easier to operate.

Management allocated this state-of-the-art equipment exclusively to the day shift to maximize its use with the most experienced operators. The night shift employees now feel this decision is fundamentally unfair. They must meet similar output targets using older, less efficient machinery, and they were not consulted during the decision-making process. Morale has plummeted sharply, and there are credible rumors of a potential production slowdown.

The central challenge you must address is: **How can the CFO of BlueGem Textiles use the principles of justice to address employee complaints of unfairness after a new, state-of-the-art dyeing machine was allocated to the day shift, leaving the night shift with older, less efficient equipment?**



Practice Question 55:

Mango Holdings has a policy to initiate a formal review process for any monthly budget variance that exceeds Rs. 500,000 in absolute value. The Corporate Marketing and Group Operations departments submitted the following figures for the month of November.

- **Corporate Marketing Department:** Budgeted Expenditure = Rs. 3,000,000; Actual Expenditure = Rs. 3,450,000.
- **Group Operations Department:** Budgeted Expenditure = Rs. 8,000,000; Actual Expenditure = Rs. 8,650,000.

Determine which department requires a formal review based on the accountability structure.

Practice Question 56:

An internal auditor at Zenith Logistics receives a whistleblower report alleging that a procurement manager has a conflict of interest with a supplier, "QuickFix Services," as they are a relative. The company policy requires a special investigation if total annual payments to a single vendor exceed Rs. 750,000 when a potential conflict of interest is flagged. The auditor reviews the payment records for QuickFix Services for the year.

- Q1 Invoice: Rs. 200,000
- Q2 Invoice: Rs. 150,000
- Q3 Invoice: Rs. 300,000
- Q4 Invoice: Rs. 225,000

Determine if the payments meet the threshold for a special investigation.

