



THE TIMES 100

Edition 14

CIMA: Improving strategic decision making

Answer sheet

Questions

1. What does CIMA stand for?
Chartered Institute of Management Accountants.
2. What do CIMA qualified accountants do?
They keep records of business transactions, prepare accounting statements, interpret the data and advise senior managers in the business in managing business performance and improving decision making.
3. How does the systematic approach work?
It works by making sure the business talks to its customers, visiting other competition, examining its own costs, prices and service. This allows the business to look at itself critically and explore alternative measures if need be e.g. new product ranges, pricing strategies etc.
4. What are the differences between aims, objectives and strategy?
An aim is an overall goal for the business e.g. to be the best 3star hotel in Yorkshire, an objective is a short term goal e.g. increase room occupancy by 30% over a twelve month period. Strategy is the method in which the goals and objectives are achieved . in this case it would be to promote the hotel in various magazines.
5. Is the systematic approach a good way of making decisions. If so why?
Yes because, it has recognised a problem, looked at all the data and explored ways of improving it. Businesses will have had to face the problem head on and rectified it. Constant feedback is given and so therefore there are reassurances that the right decisions have been made and improvements are probable.
6. What is opportunity cost?
Cost is choosing one thing at the cost of another. E.g. Tesco chose to reduce the number of carrier bags given out at the risk of upsetting the customer. The opportunity was saving money on plastic bags and reducing landfill waste as opposed to reducing the number of carrier bags given to the customer and risking customers not being happy.
7. Why are some businesses more risk averse than others?
The type of product that it sells, the number of products that need to be sold, is it a recession proof product necessity versus luxury good. Management styles. Overall aim of the business. Larger business, small business, levels of working capital and debtō ..



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8. There are 3 types of decision making used in a business. What are they and explain them?
Strategic Decisions . are made with a view for the long term, and decisions made effect the whole business. They are usually made by senior management.
Tactical Decisions - are decisions that have been made by middle management and generally include opening hours, types of product sold.
Operational decisions are the day to day decisions that need to be made . usually made by junior managers e.g. re ordering of stock, staff rotas etc.
9. Using the income expenditure table for 2007 and 2008, interpret the data.
In 2008 the Sales Revenue had risen from £810.3m to £811.7m. Cost of sales had fallen in 2008 leaving a gross profit of £406.1m as opposed to 3385m in 2007. A difference of £21.1m. However overheads had risen, possibly due to expansion or an increase in rental which cause the net profit to fall from £39m in 2007 to £11.3m in 2008. A difference of £27.7m.
10. Using the balance sheet for 2007 and 2008. Interpret the data.
In 2007 the business has £472.7m worth of assets compared to £487.9m worth of assets. This was caused by an increase mainly stock (current assets increased by £14.3m) and a slight rise of just over £2m. Loans (£27.1m) were taken out and reserves (£1.9m) were used to finance this.
11. Which ratios could you use to analyse the performance of the business?
Gross Profit, Net profit, Current ratio, ROCE
12. Calculate the ratios listed.
2008 Gross profit = $GP/Sales \times 100 = 406.1 / 811.7 \times 100 = 50.03\%$
2008 Net Profit . $NP/Sales \times 100 = 11.3 / 811.7 \times 100 = 1.39\%$