

FINAL EXAMINATION

December 2017

**P-15(BSCM)
Syllabus 2012**

Business Strategy and Strategic Cost Management

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

SECTION – A (20 marks)

Answer Question No. 1 which is compulsory.

1. (a) State whether the following statements are *True* or *False*. Give reasoning for your answers.

No credit will be given for answers without reasoning. If the statement is *False*, give the correct statement. 1×5=5

- (i) Special Alert Control is designed to observe a wide range of events within and outside the organization that are likely to affect the track of the organization's strategy.
- (ii) Management Development is a complex educational strategy designed to increase organizational effectiveness and wealth through planned involvement by a consultant, using the theory and techniques of applied behavioural science.
- (iii) JIT deals with controlling defects in time.
- (iv) Benchmarking cannot be used as a tool in the establishment of standard manufacturing cost.
- (v) Transfer Pricing has significance for the purpose of measurement of divisional performance.

Please Turn Over

(b) Match the statement under Column I with the appropriate statement under Column II: 1×5=5

Column I	Column II
(A) Crown Jewel Tactics	(i) is about creating and maintaining a competitive advantage in a constantly changing hyper-competitive environment.
(B) Strategic Position	(ii) defines the nature and range of businesses a firm intends to operate.
(C) Strategic Leadership	(iii) is a unique skill or technology that creates distinct customer value.
(D) Corporate Strategy	(iv) The target company arranges to sell its highly profitable part of the business in order to dissuade the predator.
(E) Core Competency	(v) involves making choices between competing alternatives that are, to some extent, mutually exclusive.

(c) Define the following terms in just one-two sentence(s): 1×5=5

- (i) Kaizen Costing
- (ii) Responsibility Accounting
- (iii) Activity Based Costing
- (iv) Strategic Cost Management
- (v) Gross Profit Ratio

(d) By making and selling 7,000 units of its product, a company would loss ₹ 10,000; whereas in the case of 9,000 units, it would make a profit of ₹ 10,000 instead. Calculate: 1×5=5

- (i) Contribution per unit,
- (ii) The amount of fixed expenses,
- (iii) The number of units to break-even,
- (iv) Profit or loss for 10,000 units, and
- (v) Units required to earn a profit of ₹ 10,000.

SECTION – B (80 marks)

Answer *any five* questions from the following.

Each question carries *Sixteen* marks.

16×5=80

2. (a) What is meant by 'Business Strategy'? How is it different from Corporate Strategy? 8
- (b) Explain how external factors influence the activities of an organization. Mention at least five such factors which an organization should consider to minimize their adverse effects on its business. 3+5=8
3. (a) Explain the concept of 'Value Chain Analysis' (VCA) bringing out its linkage with an organization's competitive position. List the four step processes involved in VCA that can be performed by an organization. 6+2=8
- (b) Excel Electronics manufacturing electronic equipments is currently procuring component A from a local supplier at a cost of ₹ 60 each. The company is presently considering the proposal for installing a machine for the manufacture of the component. It has two alternative proposals as under:
- (A) Installation of semi-automatic machine involving an annual fixed expenditure of ₹ 36 lakhs and a variable cost of ₹ 24 per component manufactured.
- (B) Installing an automatic machine involving an annual fixed expenditure of ₹ 60 lakhs and a variable cost of ₹ 20 per component manufactured.

You are required to:

- (i) Find the annual requirement of components to justify a switch-over from procurement of components to manufacture of the same by installing (I) semi-automatic machine and (II) automatic machine.
- (ii) Advise the company on the machine to be installed if the annual requirement of the components is 5,00,000 units.
- (iii) Advise the company at what annual volume it should select automatic machine instead of semi-automatic machine. 3+3+2=8

4. (a) ICICI Bank and Vodafone India announced a strategic alliance to launch a unique mobile money transfer and payment service called 'm-pesa'. Write five typical strategic alliance formation process steps involved. 3+5=8
- (b) Write eight steps of Business process re-engineering suggested by Vakola et al. (1998). 8
5. (a) What are the determinants of Activity-Based Costing? Explain them. 8
- (b) You are given, in respect of a manufacturing company, the following activity centres and their costs for a period:

	₹
1. Material handling	8,000
2. Machining	5,000
3. Assembly	4,800
4. Inspection	1,400

The other particulars are:

Number of material parts	80,000
Machine hours	150
Number of assembly parts	8,000
Number of finished units	1,000

- (i) Calculate overhead allocation rates using ABC.
- (ii) What will be the cost of a product which uses the following?
- 8 units of materials
 - One-fourth of the machine hour
 - 8 assembly parts (₹ 100)
 - Power etc. (₹ 10)

Given direct material cost for one unit ₹ 200.

4+4=8

6. (a) A firm received an order to make and supply eight units of standard product which involves intricate labour operations. The first unit was made in 10 hours. It is understood that this type of operations is subject to 80% learning rate. The workers are getting a wages rate of ₹ 12 per hour.

(i) What is the total time and labour cost required to execute the above order?

(ii) If a repeat order of 24 units is also received from the same customer, what is the labour cost necessary for the second order? 4+4=8

- (b) A chemical company produces two compounds A and B. The following table gives the units of ingredients C and D per kg of compounds A and B as well as the minimum requirements of C and D and costs per kg of A and B. Formulate the Linear Programming Problem (LPP):

		Table Compound		Minimum Requirement
		A	B	
Ingredient	C	1	2	80
	D	3	1	75
Cost per kg (₹)		4	6	

Do not solve the LPP.

8

7. (a) The budget and actual data of an Airline Company for the first quarter of 2017-18 are as under:

₹ in Million

	Budget	Actual
Income	400.0	418.0
Variable costs	240.0	290.4
Contribution	160.0	127.6
Fixed costs	140.0	136.0
Operating Profit/(Loss)	20.0	(8.4)

The following further details are available:

- (i) There was a decrease in air-fare by 10% over budget resulting in a 5% decrease in income for the quarter.
- (ii) Variable costs like fuel, wages, catering etc. are increased by 10% over budget.

Prepare an analysis reconciling the budgeted and actual profits for the Quarter.

8

- (b) A manufacturing company has the following production budget for November, 2016:

Product A = 20,000 units and Product B = 40,000 units.

A standard hour represents 10 units of A and 8 units of B. Standard wage rate per hour is ₹ 0.50.

During the month, 7,500 hours were paid (@ ₹ 0.60 per hour) which included 350 unproductive hours due to unbudgeted holidays as also loss of production of 250 units of Product A due to machine breakdown.

Actual production for the month were 24,000 units of A and 38,000 units of B.

Calculate:

2×4=8

- (i) Direct labour rate variance
- (ii) Direct labour idle time variance
- (iii) Direct labour efficiency variance
- (iv) Direct labour total variance

8. (a) State the circumstances when Premium Pricing is resorted as a marketing strategy. What are its limitations? 4+2=6
- (b) What do you understand by (new) product development? Enumerate the important stages of product development process in a multi-national firm and briefly explain them. 2+8=10
-