PAPER – 15: Business Strategy and Strategic Cost Management

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Time Allowed: 3 Hours **Full Marks: 100**

Section A

Answer Question No. 1 which is compulsory and Carries 20 Marks.

1. (a) Distinguish between Strategy and Policy. [8]

(b) A company has the following budget based on orders from home market:

		Amount in `
Sales (2000 units)		10,000
Cost of Sales		
Direct Material	1,000	
Direct Labour	4,000	
Variable Overhead	1,000	
Fixed Overhead	3,000	9,000
		1,000

At this level of output, the company has spare capacity and it is therefore planning to develop export market. It believes that it will be able to sell an additional 750 units – the limit of its production due to a shortage of raw materials. No additional fixed costs would be incurred and selling price and variable costs per unit would be the same as for the home market.
Before launching its export campaign, however, the company is approached by a home buyer who wishes to purchase 200 deluxe models which twice as much materials as the standard model. What is the minimum price which should be charged if this order is accepted? [3]

(c) The annual demand for an item of raw material is 3,000 units and the purchase price is `100 per unit. The incremental cost of processing an order is `150 and the carrying cost per annum is 10 per unit. What is the optimal order quantity and the total relevant cost of this order quantity? [3]

(d) Nulook Ltd. Uses a JIT system and back flush accounting. It does not use a raw material stock control account. During May, 8000 units were produced and sold. The standard cost per unit is Rs 100; this includes materials of `45. During May, `4,80,000 of conversion costs were incurred. What is the debit balance on cost of goods sold account for the month of May? [3]

(e) A company manufactures two products using common material handling facility. The total budgeted material handling cost is `60,000. The other details are:

	Product X	Product Y
Number of units produced	30	30
Material moves per product line	5	15
Direct labour hour per unit	200	200

Based on activity based costing system what is the material handling cost to be allocated to product X –Per Unit? [3]

Sec-B:
Answer any 5 Questions from the following.
Each Question carries 16 Marks

2. (a) Explain about BCG Matrix

(b) Discuss the Limitations of Value Chain Analysis. [8+8=16]

3. Define Strategic Alliance. Discuss the different types of Strategic alliances. Also explain the benefits of strategic alliance. [3+5+8=16]

4. (a) The various PEST Analysis factors that a firm need to consider and research in order to enter the restaurant business.
(b) What do you mean by strategic leadership? What are two approaches to leadership style? [8+8=16]

5. (a) Distinguish between Strategic Management and Strategic Planning [8]

(b) A Company with two manufacturing divisions is organized on profit center basis. Division 'A' is the only source for the supply of a component that is used in Division B in the manufacture of a product KLIM. One such part is used each unit of the product KLIM. As the demand for the product is not steady. Division B can obtain orders for increased quantities only by spending more on sales promotion and by reducing the selling prices. The Manager of Division B has accordingly prepared the following forecast of sales quantities and selling prices.

Sales units per day	Average Selling price per unit of KLIM
1,000	` 5.25
2,000	3.98
3,000	3.30
4,000	2.78
5,000	2.40
6,000	2.01

The manufacturing cost of KLIM in Division B is ` 3,750 first 1,000 units and ` 750 per 1,000 units in excess of 1,000 units.

Division A incurs a total cost of `1,500 per day for an output to 1,000 components and the total costs will increase by `900 per day for every additional 1,000 components manufactured. The Manager of Division A states that the operating results of his Division will be optimized if the transfer price of the component is set at `1.20 per unit and he has accordingly set the aforesaid transfer price for his supplies of the component to Division A

You are required:

(1) Prepare a schedule showing the profitability at each level of output for Division A and Division B.

(2) Find the profitability of the company as a whole at the output level which

(i) Division A's net profit is maximum.

(ii) Division B's net profit is maximum.

(3) If the Company is not organised on profit centre basis, what level of output will be chosen to yield the maximum profit. **[2+(2+2)+2=8]**

6. (a) Write about the four perspectives of Balanced Score Card **[8]**

(b) After observing heavy congestion of customers over a period of time in a petrol station, Mr. Petro has decided to set up a petrol pump facility on his own in a nearby site. He has compiled statistics relating to the potential customer arrival pattern and service pattern as given below. He has also decided to evaluate the operations by using the simulation technique.

Arrivals		Services	
Inter-arrival minutes)	Probability	Inter-arrival time (minutes)	Probability
2	0.22	4	0.28
4	0.30	6	0.40
6	0.24	8	0.22
8	0.14	10	0.10
10	0.10		

Assume:
(i) The clock starts at 8:00 hours
(ii) Only one pump is set up.
(iii) The following12 Random Numbers are to be used to depict the customer arrival pattern: 78, 26, 94, 08, 46, 63, 18, 35, 59, 12, 97 and 82.
(iv) The following 12 Random Numbers are to be used to depict the service pattern:44, 21, 73, 96, 63, 35, 57, 31, 84, 24, 05, 37

You are required to find out the
(i) Probability of the pump being idle
(ii) Average time spent by a customer waiting in queue **[8]**

7. (a) Bathing care Ltd. manufactures and sells soaps under the brand name — Elite, Lovely, Fresh and Janata. The Janata soap is very popular as it is of good quality and at the same time reasonably priced. The company produces and sells per annum on an average 50,000 cakes of Elite, 1,00,000 cakes of Lovely, 75,000 cakes of fresh and 2,00,000 cakes of Janata at a unit selling price of `3.50, `3.00, `2.50 and `1.5 respectively.

At this level of production and sales the unit cost of a cake of each brand of soap is as follows:

			(Expressed in Paise)	
	Elite	Lovely	Fresh	Janata
Direct Material	50	40	35	45
Direct Labour	20	20	15	10
Production Expenses:				
Variable	10	10	5	5
Fixed	20	25	20	20
Administrative Expenses:				
Fixed	30	40	25	30
Variable	15	5	10	5
Selling & Distribution Expenses:				
Fixed	80	60	45	10
Variable	45	20	25	5
Total Cost	270	220	180	130

The co. has lot of unutilized capacity and there is ample scope for improving production and sales volumes. Bathing Care Ltd. has built a name for its products in the market and with proper sales effort it should be possible to sell whatever is produced by the co., the production manager sees no problems. The sales manager put up a bold scheme for almost quadrupling the present profits of the company.

1. **An exclusive advertising campaign has to be undertaken to produce and sell Janata Soaps and it is estimated at ` 4,85,000.**
2. **At the same time the selling price of Janata Soap should be reduced to ` 1/- by adopting this sales strategy the sales manager is confident that he is able to double the present sales volume of Janata Soap and with each 1 lack increase of Janata Soap he would be able to push 30,000 cakes of Elite, 70,000 of lovely, 50,000 of fresh in the market. You are required to find out the profit at present and profit if the sales managers scheme is implemented. [8]**

(b) A review, made by the top management of Sweat and Struggle Ltd. which makes only one product, of the result of the first quarter of the year revealed the following:

Sales in units	10,000
Loss	` 10,000
Fixed cost (for the year `1,20,000)	` 30,000
Variable cost per unit	` 8,000

The Finance Manager who feels perturbed suggests that the company should at least break-even in the second quarter with a drive for increased sales. Towards this, the company should introduce better packing which will increase the cost by ` 0.50 per unit.

The Sales Manager has an alternative proposal. For the second quarter additional sales promotion expenses a can be increased to the extent of ` 5,000 and a profit of ` 5,000 can be aimed at during the period with increased sales.

The Production Manager feels otherwise. To improve the demand, the selling price per unit has to be reduced by 3%. As a result, the sales volume can be increased to attain a profit level of ` 4,000 for the quarter.

The Manager Director asks you as a Cost Accountant to evaluate the three proposals and calculate the additional sales volume that would be required in each case, in order to help him to take a decision. [8]

8. The budgeted output of a single product manufacturing company for1984-85 was 5,000 units. The financial results in respect of actual output of 4,800 units achieved during the year were as under:

	Amount in `
Direct Material	29,700
Direct Wages	44,700
Variable overheads	72,750
Fixed overheads	39,000
Profit	36,600

Sales	**2,22,750**

The standard direct wage rate is `4.50 per hour and the standard variable overhead rate is ` 7.50 per hour.

The cost accounts recorded the following variances for the year.

Variances	Favorable	Adverse
Material Price	**---**	**300**
Material usage	**---**	**600**
Wage rate	**750**	**---**
Labour efficiency	**---**	**2,250**
Variable overhead expense	**3,000**	**---**
Variable overhead efficiency	**----**	**3,750**
Fixed overhead expense	**----**	**1,500**
Selling price	**6,750**	**---**

Required to:

(i) Prepare a statement showing the original budget.

(ii) Prepare the standard product cost sheet per unit.

(iii) Prepare a statement showing the reconciliation of originally budgeted profit and actual profit **[6+4+6=16]**