

PAPER – 15: Business Strategy and Strategic Cost Management

MTP_Final_Syllabus 2012_Jun2016_Set 2

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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) What is strategy? Why it is done? [8]

(b) A company operates throughput accounting system. The details of product X per unit are as under:

Selling Price	₹ 50
Material Cost	₹ 20
Conversion cost	₹ 15
Time on bottleneck resources	10 minutes

What is the return per hour for product X? [3]

(c) If the time taken to produce the first unit of a product is 4000 hours, what will be the total time taken to produce from 5th to 8th unit of the product, when a 90% learning curve is applied? [3]

(d) A company has the capacity of production of 80,000 units and presently sells 20,000 units at ₹ 100 each. The demand is sensitive to selling price and it has been observed that with every reduction of ₹ 10 in selling price the demand is doubled. What should be the target cost per unit at full capacity if profit margin on sale is taken as 25%? [3]

(e) B Ltd. Has earned net profit of ₹ 1 lakh, and its overall P/V ratio and margin of safety are 25% and 50% respectively. What is the total fixed cost of the company? [3]

Sec-B:

Answer any 5 Questions from the following.
Each Question carries 16 Marks

2. (a) Discuss different types of Value Chain Activities?

(b) List out any eight advantages and four disadvantages of Global Strategic Alliance? [8+8=16]

3. (a) What do you understand by 'Corporate Restructuring'? What are the different corporate level restructuring strategies?

(b) State the drawbacks of Vertical Integration. [8+8=16]

4. (a) Mention any eight qualities of strategic leaders.

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(b) Enumerate the important characteristics of Corporate Level Strategy. [8+8=16]

5. (a) What is strategic Planning? State the features of strategic planning. Also state the usefulness of strategic planning. [8]

(b) The products P, Q and R are being produced in a plant having profit margin as ` 3, ` 5 and ` 4 respectively. The raw materials A, B and C are of scarce supply and the availability is limited to 8, 15 and 10 units respectively. Specific consumption is indicated in the table below:

	P	Q	R
A	2	3	-
B	3	2	4
C	-	2	5

Formulate the problem mathematically (LP) for maximization of profit margin [8]

6. (a) Describe the internal and competitive bench marking. [8]

(b) A company has 3 plants located at different places but producing an identical product. The cost of production, distribution cost of each plant to the 3 different warehouses, the sale price at each warehouse and the individual capacities for both the plant and warehouse are given below:

Plants	F1	F2	F3
Raw material	15	18	14
Other expenses	10	9	12

Distribution cost to warehouse				Sales Price in (`)	Warehouse Capacity (No)
W1	3	9	5	34	80
W2	1	7	4	32	110
W3	5	8	3	31	150
Capacity of Plant (No.)	150	100	130		

(i) Establish a suitable table giving net profit/loss for a unit produced at different plants and distributed at different locations.

(ii) Introduce a suitable dummy warehouse/plant so as to match the capacities of plants and warehouses.

(iii) Find distribution pattern so as to maximize profit/minimize loss. [8]

7. (a) Alfa Limited Company's Cost Accountant was given the following information regarding the overheads for 31st March, 2016.

A – Overhead Cost Variance ` 1400 Adverse.

B – Overhead Volume Variance ` 1,000 Adverse.

C – Budgeted Hours for 31st March, 2016 — 1200 hours.

D – Budgeted Overheads for 31st March, 2016 — ` 6000.

E – Actual Rate of recovery of overheads ` 8 per hour.

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As a professional accountant, you have to assist him in computing the following for 31st March, 2016

- (i) Overhead Expenditure Variance
- (ii) Actual overhead incurred
- (iii) Actual hours for actual production
- (iv) Overheads Capacity Variance
- (v) Overheads Efficiency Variance
- (vi) Standard Hours for Actual Production.

(b) Better Budgets Ltd. are preparing their budget for the year 2017. In the preparation of the budget they would like to take no chances, but would like to envisage all sorts of possibilities and incorporate them in the Budget. Their considered estimates are as under:

- (i) If the worst possible happens, sales will be 8,000 units at a price of ₹19 per unit the material cost will be ₹9 per unit, direct labour ₹2 per unit, and the variable overhead will be ₹1.50 per unit. The fixed cost will be ₹60,000 per annum.
- (ii) If the best possible happens, sales will be 15,000 units at a price of ₹20 per unit. The material cost will be ₹7 per unit, direct labour ₹3 per unit and the variable overhead will be ₹1 per unit. The fixed cost will be ₹48,000 per annum.
- (iii) It is most likely, however, that the sales will be 2,000 units above the worst possible level at a price of ₹20 per unit. The material cost will be ₹8 per unit, direct labour ₹3 per unit and the variable overhead will be ₹1 per unit. The fixed cost will be ₹50,000 per annum.
- (iv) There is a 20% probability that the worst will happen, a 10% probability that the best will happen and a 70% probability that the most likely outcome will occur.

What will be the expected value of Profit as per the Budget for the year 2017? [8]

8. Forward and Foundry Ltd. is feeling the effects of a general recession in the industry. Its budget for the coming half year is based on an output of only 500 tones of casting a month which is less than half of its capacity. The prices of casting vary with the composition of the metal and the shape of the mould, but they average ₹175 a ton. The following details are from the Monthly Production Cost Budget at 500 tone levels:

	Core making (₹)	Melting and Pouring (₹)	Moulding (₹)	Cleaning and Grinding (₹)
Labour	10,000	16,000	6,000	4,500
Variable overhead	3,000	1,000	1,000	1,000
Fixed overhead	5,000	9,000	2,000	1,000
	18,000	26,000	9,000	6,500
Labour and OH rate per direct labour hour	9.00	6.50	6.00	5.20

Operation at this level has brought the company to the brink of break-even. It is feared that if the lack of work continues, the company may have to lay off some of the most highly skilled workers whom it would be difficult to get back when the volume picks up later on. No wonder, the workers Manager at this Juncture, welcome an order for 90,000 casting, each weighing about 40 lbs., to be delivered on a regular schedule during the next six months. As

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the immediate concern of the Works Manager is to keep his work force occupied, he does not want to lose the order and is ready to recommended a quotation on a non-profit and no-loss basis.

Materials required would cost ` 1 per casting after deducting scrap credits. The direct labour hour per casting required for each department would be:

Core Making	0.09
Melting and pouring	0.15
Moulding	0.06
Cleaning and grinding	0.06

Variable overheads would bear a normal relationship to labour cost in the melting and pouring department and in the moulding department. In core making, cleaning and grinding however, the extra labour requirements would not be accompanied by proportionate increases in variable overhead. Variable overhead would increase by ` 1.20 for every additional labour hour in core making and by 30 paise for every additional labour hour in cleaning and grinding. Standard wage rates are in operation in each department and no labour variances are anticipated.

To handle an order as large as this, certain increases in factory overheads would be necessary amounting to ` 1,000 a month for all departments put together. Production for this order would be spread evenly over the six months period.

You are required to:

- (a) Prepare a revised monthly labour and overhead cost budget, reflecting the addition of this order.
- (b) Determine the lowest price which quotation can be given for 90,000 castings without incurring a loss. [12+4=16]