FINAL EXAMINATION

December 2014

P–15(BSCM)
Syllabus 2012

Business Strategy & Strategic Cost Management

Time Allowed: 3 Hours | Full Marks: 100

SECTION A (50 marks)

(Business Strategy)

Question No. 1 *is compulsory and carries 20 marks.*
Answer any two *questions from the rest in this section, each carrying 15 marks.*

1. Chawama Enterprises was established twenty-five years ago. The organization was formed to provide mining tools to the mines of M/s. Coal India Ltd. The organization has faced mixed fortunes in its business over the period of its existence. This is directly attributable to external forces faced over its life cycle both at macro and competitive environment levels. There are times when macro environment has been favourable and times when factors relating to political and economical environment had almost threatened the survival of the organization. During the world credit crunch, fall in copper prices and ever increasing importation prices of tools due to weaker Kwacha has once again created acute challenges for the organization.

   In wake of the above background :

   (a) Evalute how environmental analysis can help Chawama Enterprises deal with the business environment.

   (b) Explain how Chawama Enterprises can use the Five Forces Model to evaluate how competitive the firm is. 10+10=20

2. Strategic planning is often defined as a process of proactively aligning the organization's resources with threats and opportunities caused by changes in the external environment in order to achieve prescribed goals. While it focuses on the future, it also reflects on what happened in the past.

   (i) Explain the four aspects that are embedded in the definition of strategic planning.

   (ii) Point out reasons why organizations may embark on the concept of strategic planning.

   (iii) State some shortcomings of strategic planning. 5+5+5=15

3. (a) Benchmarking is the process by which companies look at the "best" in the industry and try to imitate their styles and processes. Evaluate the rationale for benchmarking exercises and discuss the benefits of benchmarking to the company. 7

   (b) (i) Why many companies opt to go for a Strategic Alliance?

   (ii) State the critical factors for Strategic Alliance.

   (iii) State the critical factors for Mergers and Acquisitions. 2+4+2=8

Please Turn Over

4. From peak sales of over 27,000 units in the January-March 2012 quarter to under 4,000 in the three months to December 2013, Tata Motors' Nano hasn't quite lived up to the hype and expectations built up since its launch in mid-2009. To combat with the situation now it launched Nano Twist, a 'smart city car' costing just under ₹ 2.36 lakhs.

Answer the following questions :

(a) What is strategic decision? What are its characteristics?

(b) Strategic decisions are complex in nature–explain.

(c) Explain how this strategic decision will help Tata Motors to repositioning themselves in the market. (1+7)+5+2=15

SECTION B (50 marks)
(Strategic Cost Management)

Question No. 5 *is compulsory and carries 20 marks.*

Answer any two *from the rest in this section, each carrying 15 marks.*

5. Domestic political trouble in the country of an overseas supplier is causing concern in your company because it is not known when further supplies of raw material 'x' will be received. The current stock held of this particular raw material is 17,000 kgs., which costs ₹ 1,36,000.

Based on raw material 'x', your company makes five different products and expected demand for each of these, for the next three months, is given below together with relevant information :

Product Code	Kilogram of raw material 'x'/units of finished product (kg.)	Direct labour hours/unit of finished product (Hrs.)	Selling price/unit (₹)	Expected demand over three months (units)
701	0.7	1.0	26	8,000
702	0.5	0.8	28	7,200
821	1.4	1.5	34	9,000
822	1.3	1.1	38	12,000
937	1.5	1.4	40	10,000

The direct wages rate/hour is ₹ 5 and production overhead is based on direct wages cost. The variable overhead absorption rate being 40% and the fixed overhead absorption rate being 60%, Variable selling costs, including sales commission are 15% of selling price.

Budget fixed selling and administration costs are ₹ 3,00,000 per annum. Assume that the fixed production overhead incurred will equal the absorbed figure.

You are required to :

(i) Show what quantity of the raw material on hand ought to be allocated to which products in order to maximize profits for the forthcoming three months.

(ii) Present a brief statement showing contribution and profit for the forthcoming three months, if your suggestion in (i) is adopted. 10+10=20

6. (a) Singular Products Co. Ltd. manufactured and sold in a year 15,000 units of a particular product fetching a sales value of ₹ 15 Lakhs. After charging direct material 30% on sales value, direct labour 20% on sales value, variable overheads ₹ 10 per unit, the company earned ₹ 16.67 per unit during the year.

The existing equipment can produce a maximum of 20,000 units per annum. In case, the demand exceeds the maximum output, new equipment will be required which will cost ₹ 10 Lakhs and it will have a life span of 10 years, with no residual value.

A prospective customer is willing to place an order on the company for 10,000 units per year regularly at 90% of the present selling price, which will be, if accepted, over and above the existing market for 15,000 units.

Irrespective of the fact whether or not the new order materializes, the cost increase with immediate effect is :

(i) 10% in the Direct Materials.

(ii) 25% in the Direct Labour.

(iii) ₹ 50,000 in Fixed overheads per year.

If the order of additional 10,000 units is accepted, the Fixed overhead will increase by another ₹ 50,000 by way of increased administration expenses.

You are required to recommend whether the company should accept the new business at the stipulated price or decline the new order and make a concerted sales drive to sell the present unused capacity at the present selling price? The sales drive will cost ₹ 60,000 per year.

Ignore the finincial charges on the cost of the equipment and assume there are no opening/closing stock inventories. Variable cost will increase in direct proportion to the output. 10

(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/kg of A and B. Formulate the LPP equations. 5

	Table Compound		Minimum requirement
	A	B	
Ingredient C	1	2	80
D	3	1	75
Cost per kg.	4	6	

7. (a) What are the various stages/steps to be taken in the implementation of TQM? How does TQM facilitate value addition in an organization? 8

(b) A Company has just completed the manufacture of 40 units of a new product. The manufacturing costs are :–

	₹
Direct Material	2,00,000
Direct Labour : 8,000 hour @ ₹ 20/hr	1,60,000
Variable Overheads	80,000
Special tools (re-usable)	10,000
Fixed overheads apportioned	1,00,000
Total	**5,50,000**

The Company policy is to add a profit of 12% on selling price.

The Company received another order for 120 units of this product for which the company quoted, based on its policy on absorption cost basis, a price of ₹ 15,625 per unit. The customer struck the order to ₹ 11,000 per unit. The Company is short of work and so is keen to take up more orders but it is reluctant to accept this order price because it is against the policy to accept any price below its cost. The Company experiences a learning curve of 90%.

(i) Compute the gain or loss arising from acceptance of the order of ₹ 11,000 per unit.
(ii) Advice whether the company should accept this order for 120 units or not. 5+2=7

8. Write Short Notes on *any three* of the following : 5×3=15

(a) Different Pricing Strategies

(b) Areas of Cost Reduction and techniques to be adopted for Cost Reductions

(c) Need for 'Lean Accounting'

(d) Kaizen Costing

(e) Strategies for combating 'hostile take-over'