FINAL EXAMINATION

June 2017

P–15(BSCM)
Syllabus 2012

Subject: 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 in each case. No credit will be given for answers without reasoning. If the statement is False, give the correct statement: 1×5=5

(i) Loss Leader is the leader who is unable to conceptualise and analyse strategic issues.

(ii) CPV Analysis is a simple Break-Even Analysis.

(iii) Network analysis refers to problems in which observations are collected at regular time intervals and there are correlations among successive observations.

(iv) The higher the contribution (sales *less* variable costs), the higher will be the profit irrespective of the amount of operating fixed costs.

(v) The process of change is a continuous journey.

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

Column I	Column II
(A) Strategic Plan	(i) Entrance value and do not include waste reduction.
(B) Value Drivers	(ii) It refers to the purposes an organisation strives for.
(C) Conglomerate Merger	(iii) A unified, comprehensive and integrated plan.
(D) Strategic Intent	(iv) When a firm in an industry combines with another in an unrelated industry.
(E) Mission	(v) It is the essence or purpose for which a firm stands.

(c) Define the following terms in just one or two sentences. 1×5=5

(i) Competitive advantage (CA)

(ii) Core Competency (CC)

(iii) Transfer Price (TP)

(iv) Life Cycle Costing (LCC)

(v) Net Present Value (NPV)

(d) In each of the following one of the alternatives is correct. Indicate the correct answer: 1×5=5

(i) Following are the balanced scorecard perspectives EXCEPT:

(A) Financial

(B) Time series analysis

(C) Customer or Market

(D) Internal Business Processes

(ii) One of the most important features of Strategic Cost Management which differs it from Traditional Cost Management is:

(A) Internal Focus

(B) Cost Impact as Primary Concern

(C) Reactive Management as Management Responsibility

(D) Value Chain Perspective

(iii) Nulook Ltd. uses a JIT system and backflush 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 ₹ 100. This includes materials of ₹ 45. During May, ₹ 4,80,000 of conversion costs were incurred.

The debit balance on Cost of Goods Sold Account for May was:

(A) ₹ 8,00,000

(B) ₹ 8,40,000

(C) ₹ 8,80,000

(D) ₹ 9,20,000

(iv) For an Entrepreneur:

(A) Vision is before the mission

(B) Mission is before the vision

(C) Both are developed simultaneously

(D) Vision or mission is an unimportant issue

(v) Given the following particulars:

Sales	₹ 2,00,000
Fixed cost	₹ 40,000
Break-even Point	₹ 60,000

The C/S ratio in respect of the above would be:

(A) 50·6%

(B) 60·7%

(C) 66·7%

(D) 48·6%

SECTION – B (80 marks)

Answer *any five* Questions from the following. Each Question carries *Sixteen* Marks. **5×16=80**

2. (a) Business performance management is need creating business strategy in eight steps. Write them with examples. 8

(b) A master strategy of a firm consists of two inseparable parts: Business strategy and Corporate strategy. Differentiate them with examples. 4+4=8

3. (a) Change is inevitable, and those organizations who do not keep up with change will become unstable, with long-term survivability in question. As CMA what can you change in your company? 4+4=8

(b) According to Glueck, possible strategic alternatives at Corporate Level Strategy are Expansion, Stability, Retrenchment and any combination of these three. Explain all four with examples. 4+4=8

4. (a) The idea behind Responsibility Accounting is that each manager's performance should be judged by how well he manages those items under his control. In the light of this statement, what would be the basic requirements for a successful Responsibility Accounting in an organisation? 5

(b) Despite many advantages, the strategy of differentiation pursued by some organisations is not altogether free of pitfalls. Elucidate. 5

(c) Ace Engineering Ltd. engaged in the manufacture of four products has prepared the following budget for 2017.

	A	B	C	D
Production Units	20,000	5,000	25,000	15,000
Selling price ₹/unit	21.75	36.75	44.25	64.00
Direct Materials ₹/unit	6.00	13.50	10.50	24.00
Direct Wages ₹/Unit	7.50	10.00	18.00	24.00
Variable Overheads ₹/unit	2.25	5.00	6.00	6.50
Fixed Overheads ₹ p.a.	75,000	25,000	2,25,000	1,80,000

When the budget was discussed, it was proposed that the production should be increased by 10,000 units for which capacity existed in 2017.

It was also decided that for the next year, i.e.2018, the production capacity should be further increased by 25,000 units over and above the increase of 10,000 units envisaged as above for 2017. The additional production capacity of 25,000 units should be used for the manufacture of product 'B' for which new production facilities were to be created at an annual fixed overhead cost of ₹ 35,000. The direct material costs of all the four products were expected to increase by 10% in 2018 while the other costs and selling prices would remain the same.

As a Management Accountant of the organization you are required to:

(i) Find the profit of 2017 on the assumption that the existing capacity of 10,000 units is utilised to maximize the profit.

(ii) Prepare a statement of profit for 2018.

(iii) Assuming that the increase in the output of product 'B' may not fully materialise in the year 2018, find the number of units of product B to be sold in 2018 to earn the same overall profit as in 2017. 6

5. (a) What are relevant costs? Explain and give some examples. 4+4+8=16

(b) Explain the term Business Process Re-engineering.

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

Direct materials	2,00,000
Direct labour: 8000 hours at ₹ 20 per hour	1,60,000
Variable overheads	80,000
Special tools (re-usable)	10,000
Fixed overhead 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 at the quoted 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. 6+2=8

6. A Company with two manufacturing divisions is organised on profit centre 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 in 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 for 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 of 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 optimised 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 to:

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

(b) Find the profitability of the Company as a whole at the output level when:

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

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

(c) If the Company is not organised on profit centre basis, what level of output will be chosen to yield the maximum profit. 8+4+4=16

7. (a) What are the determinants of Actively Based Costing (ABC)? Explain them in brief. 4

(b) What are Costs of Quality? How can you classify Quality Costs into several useful groups for better management? 4

(c) ABC Ltd., a machine tool company, repairs and services machine tools. A summary of its estimated costs, analysed by activity, for 2016 is given below:

	(₹)	(₹)
(1) Servicing machine tools:		
Materials	50,000	
Labour	80,000	1,30,000
(2) Material handling costs		20,000
(3) Material procurement and inspecting costs		15,000
(4) Rework costs		20,000
(5) Cost of expediting delayed work		10,000
(6) Break-down maintenance		30,000
(7) Preventive maintenance		20,000
	Total	2,45,000

(i) Classify the above items of costs into value added and non-value added groups.

(ii) Assuming that some portion of material handling and material procurement and of preventive maintenance cost is avoidable, how would you reclassify the above items? 4+4=8

8. (a) What are the pre-requisites for successful Benchmarking? 8

(b) Distinguish between Strategy and Policy. Exemplify a situation when a Policy and a Strategy are identical. 8