

**PAPER – 15 - BUSINESS STRATEGY & STRATEGIC COST  
MANAGEMENT**

## MTP\_Final\_Syllabus 2012\_Dec 2015\_Set 1

The following table lists the learning objectives and the verbs that appear in the syllabus learning aims and examination questions:

	<b>Learning objectives</b>	<b>Verbs used</b>	<b>Definition</b>
<b>LEVEL C</b>	<b>KNOWLEDGE</b> What you are expected to know	List	Make a list of
		State	Express, fully or clearly, the details/facts
		Define	Give the exact meaning of
	<b>COMPREHENSION</b> What you are expected to understand	Describe	Communicate the key features of
		Distinguish	Highlight the differences between
		Explain	Make clear or intelligible/ state the meaning or purpose of
		Identify	Recognize, establish or select after consideration
		Illustrate	Use an example to describe or explain something
	<b>APPLICATION</b> How you are expected to apply your knowledge	Apply	Put to practical use
		Calculate	Ascertain or reckon mathematically
		Demonstrate	Prove with certainty or exhibit by practical means
		Prepare	Make or get ready for use
		Reconcile	Make or prove consistent/ compatible
		Solve	Find an answer to
		Tabulate	Arrange in a table
	<b>ANALYSIS</b> How you are expected to analyse the detail of what you have learned	Analyse	Examine in detail the structure of
		Categorise	Place into a defined class or division
		Compare and contrast	Show the similarities and/or differences between
		Construct	Build up or compile
		Prioritise	Place in order of priority or sequence for action
		Produce	Create or bring into existence
	<b>SYNTHESIS</b> How you are expected to utilize the information gathered to reach an optimum conclusion by a process of reasoning	Discuss	Examine in detail by argument
		Interpret	Translate into intelligible or familiar terms
Decide		To solve or conclude	
<b>EVALUATION</b> How you are expected to use your learning to evaluate, make decisions or recommendations	Advise	Counsel, inform or notify	
	Evaluate	Appraise or assess the value of	
	Recommend	Propose a course of action	

## Paper 15 - Business Strategy and Strategic Cost Management

This paper contains 4 questions. All questions are compulsory, subject to instruction provided against each questions. All workings must form part of your answer. Assumptions, if any, must be clearly indicated.

Full Marks: 100

Time allowed: 3 hours

### 1. Read the case and answer the following questions

Fastfix is a small company operating in a single city. Its business is repairing laptops. It has earned a good name for its fair charges and speedy delivery. For the next five years, the environment offers the following information:

Many school students are being given laptops by the school themselves and this trend is likely to continue for another five years. College students and coaching centres provide new laptops to all the students during the admission. The fees are inclusive of these costs. Tablets are first replacing laptops in certain market segments and models are changing every six months. If there are major repairs, richer people discard the products and go in for new products or newer versions. However, there are rural markets and certain parts of urban markets which will still be interested in the low cost repaired and re - sold products.

Considering the above case of Fastfix it will limit its operations to only one city. You are required to give:

- (i) A vision statement;
- (ii) A mission statement;
- (iii) Does SWOT analysis exist?
- (iv) Some parameters that could be used in such the above situation relating to the financial and growth perspectives in a Balance Score Card (BSC).
- (v) Explain the characteristics of Mission Statement.

[1+2+6+4+7]

### 2. Answer any two questions from (a), (b) and (c):

[2 x 15 =30]

(a)(i) Explain in brief the different competitive strategies for competition globally in global industries. Give one example in each strategy. [8]

(ii) "Internal Growth (often called 'Organic Growth') is where strategies are developed that build on the business' own capabilities and sources." —Mention different means by which such growth is achieved. [2]

(iii) Describe the things which are to be considered by an industry at the time of competitive dynamics analysis. [5]

(b).(i) Distinction between Strategic Management and Strategic Planning. [5]

(ii) Discuss the benefits of Strategic Alliance. [5]

(iii) Discuss about the Organizational Development and its characteristics. [5]

(c) (i) " Risk Reduction is a viable goal of diversification" - Do you agree with this statement. Discuss it. [6]

(ii) "A strategy decision making is a complex process. It is made by considering important issues." - Discuss it. [7]

(iii) Explain the uses of strategic Group Analysis. [2]

**3. Read the case and answer the following questions**

LIC Housing Finance helps prospective homeowners find low-cost financing and assists existing homeowners in refinancing their current loans at lower interest rates.

LIC Housing charges clients 0.5% of the loan amount it arranges. In its 2014 static budget, LIC Housing assumes the average loan amount will be ₹20,00,000. Budgeted cost data per loan application for 2015 are

- Professional labor: 6 hours at a rate of ₹400 per hour
- Loan filing fees: ₹1,000
- Credit-worthiness checks: ₹1,200
- Courier mailings: ₹ 500

Office support is budgeted to be ₹3,10,000 per month. LIC Housing Finance views this amount as a fixed cost.

Required:

1. Prepare a static budget for November 2015 assuming 90 loan applications.
2. Prepare a Level 2 variance analysis identifying sales-volume and flexible-budget variances for LIC Housing Finance for November 2015. Actual loan applications in November 2015 were 120, and the average loan amount was ₹22,40,000. Other actual data for November 2015 were
  - Revenue: ₹13,44,000
  - Professional labor: 7.2 hours per loan application at ₹420 per hour; total cost ₹3,62,880
  - Loan filing fees: ₹1,000 per loan application; total cost ₹1,20,000
  - Credit-worthiness checks: ₹1,250 per loan application; total cost ₹1,50,000
  - Courier mailings: ₹540 per loan application; total cost ₹64,800
  - Office support costs: ₹3,35,000
3. Compute professional labor price and efficiency variances for November 2015. (Compute labor price on a per-hour basis).
4. What factors would you consider in evaluation the effectiveness of professional labor in November 2015? [3+(3+5)+5+4]

**4. Answer any two questions from (a), (b) and (c): [2 x 15 =30]**

4. (a) (i) Write short notes on Price Discrimination. [4]

4. (a) (ii) A Manufacturer produces 3 products whose cost data are as follows -

Particulars		X	Y	Z
Direct Materials (₹/Unit)		32.00	76.00	58.50
Direct Labour:				
Dept.	Rate/hour (₹)	Hours	Hours	Hours
I	2.50	18	10	20
II	3.00	5	4	7
III	2.00	10	5	20
Variable Overheads (₹)		8	4.50	10.50

Fixed Overheads ₹ 4,00,000 per annum.

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The budget was prepared at a time, when market was sluggish. The Budgeted Quantities & Selling Prices are as under -

Product	Budgeted Quantity (Units)	Selling Price / unit (₹)
X	19,500	135
Y	15,600	140
Z	15,600	200

Later, the market improved and the Sales Quantities could be increased by 20% for product X and 25% each for products Y and Z. The Sales Manager confirmed that the increased Sales could be achieved at the prices originally budgeted. The Production Manager stated that the output could not be increased beyond the budgeted level due to the limitation of Direct Labour Hours in Department II.

Required:

- Prepare a Statement of Budgeted Profitability.
- Set Optimal Product Mix and calculate the Optimal Profit. [5+6]

#### 4. (b) (i)

J 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 for every reduction of ₹ 10 in Selling Price, the demand is doubled.

Required:

- What should be the Target Cost at full capacity, if Profit Margin on Sale is 25%?
- What should be the cost reduction scheme if at present 40% of Cost is variable, with same % of profit?
- If Rate of Return desired is 16%, what will be the maximum investment at full capacity? [2+4+2]

#### 4. (b) (ii)

Blue Ice Ltd., has adopted a Standard Costing System. The Standard output for a period is 20,000 units. The Standard Cost and Profit per unit is given below:

	₹
Direct Materials (6 units @ ₹ 1.50)	9.00
Direct Labour (6 hrs. @ ₹1.00)	6.00
Direct Expenses	1.00
Factory Overheads:	
Variable Overheads	0.50
Fixed Overheads	0.60
Administrative Overheads	0.60
	17.70
Profit per unit	2.30
Selling Price (Fixed by Government)	20.00

Actual production and sales for a period was 14,400 units.

The following are the variance worked out at the end of the period:

	Favourable (₹)	Adverse (₹)
Direct Materials:		
Price Variance	-	8,500
Usage Variance	2,100	-
Direct labour:		
Rate Variance	-	8,000
Efficiency Variance	6,400	-
Factory Overheads:		

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Variable Expenditure Variance	800	-
Fixed Expenditure Variance	800	-
Fixed Volume Variance	-	3,360
Administrative Overheads:		
Expenditure Variance	-	800
Volume Variance	-	3,360

You are required to:

Ascertain the details of cost and prepare the Profit and Loss Account in the statement for the period, showing actual profit. [3+4]

#### 4. (c) (i)

Excellent, a Scientific Equipment manufacturing company is engaged in producing different types of high class equipment for use in science laboratories. The company has two different assembly lines to produce its most popular product. The processing time for each of the assembly lines is regarded as a random variable and is described by the following distributions:

Processing time (minutes)	Assembly A <sub>1</sub>	Assembly A <sub>2</sub>
20	0.20	0.10
21	0.40	0.15
22	0.20	0.40
23	0.15	0.25
24	0.05	0.10

Using the following random numbers, generate data on the process times for 15 units of the item and compute the expected process time for the product.

3441, 7674, 4349, 4383, 8311, 1519, 0236, 4594, 1554, 0575, 8900, 8008, 2874, 2434, 0993

For the purpose, read the numbers horizontally, taking the first two digits for the processing time on assembly A<sub>1</sub> and the last two digits for processing time on assembly A<sub>2</sub>. [8+2]

#### 4. (c) (ii)

A farmer has a farm with 125 acres. He produces Carrot, Beetroot and Potato. Whatever he produces is fully sold in the market. He gets ₹ 5 per kg for Carrot, ₹ 4 kg for Beetroot and ₹ 5 per kg for Potato. The average yield is 1500 kg of Carrot per acre, 1800 kg of Beetroot per acre and 1200 kg of Potato per acre. To produce each 100 kg of Carrot and Beetroot and 80 kg of Potato, a sum of ₹ 12.50 has to be spent for manure. Labour required for each acre to raise the crop is 6 man-day for Carrot and Potato each and 5 man-day for Beetroot. A total of 500 man-days of labour at the rate of ₹ 40 per man-day are available. Formulate & LPP to maximize the farmer's total profit. [5]