Paper 15- Business Strategy & Strategic Cost Management

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

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

1. **(a)** What is Strategic decision? What are its characteristics? **[8]**

(b) ABC Ltd. Initiated a quality improvement program at the beginning of the year. Efforts were made to reduce the number of defective units produced. By the end of the year, reports from the production manager revealed that scrap and rework had both decreased. Though pleased with the success, the President of the company wanted some assessment of the financial impact of the improvements. To make this assessment, the following financial data were collected for the current and preceding year: -

	Preceding Year (2014-2015)	Current Year (2015-2016)
Sales	1,00,00,000	1,00,00,000
Scrap	4,00,000	3,00,000
Rework	6,00,000	4,00,000
Product inspection	1,00,000	1,25,000
Product warranty	8,00,000	6,00,000
Quality training	40,000	80,000
Materials inspection	60,000	40,000

You are required to classify the costs as prevention, appraisal, internal failure, or external failure **[3]**

(c) 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 at full capacity if profit margin on sale is taken as 25%? **[3]**

(d) A company is to market a new product. It can produce up to 1,50,000 units of this product. The following are the estimated cost data:

	Fixed Cost	Variable Cost
For production up to 75,000 units	₹8,00,000	60%
Exceeding 75,000 units	₹12,00,000	50%

Sale price is expected to be ₹ 25 per unit.
How many units must the company sell to break even? **[3]**

(e) 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 ₹ 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 **[3]**

Section B

Answer any five questions from the following and each question carries 16 marks.

2. **(a)** Explain the significance of Strategy Evaluation. **[8]**

(b) What are the problems of strategy evaluation. **[8]**

3. **(a)** Enumerate the advantages of strategic planning. **[8]**

(b) Describe about the internal and competitive bench marking. **[8]**

4. **(a)** Discuss different types of value chain activities. **[10]**

(b) Distinguish between Cost Reduction and Cost Management. **[6]**

5. **(a)** What is Synergy? Explain its significance in strategy making. **[8]**

(b) An electro-mechanical equipment has a purchase price of ₹7,000. Its running costs per year and resale values are given here:

Year:	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**
Running Costs (₹)	2,000	2,100	2,300	2,600	3,000	3,500	4,100	4,600
Resale Value (₹)	4,000	3,000	2,200	1,600	1,400	700	700	700

At which year is the replacement due? **[8]**

6. **(a)** What do you mean by Kaizen Costing. **[8]**

(b) A businessman is considering taking over a certain new business. Based on past information and his own knowledge of the business, he works out the probability distribution of the monthly costs and sales revenues, as given here:

Cost (in ₹)	**Probability**	**Sales Revenue (₹)**	**Probability**
17000	0.10	19000	0.10
18000	0.10	20000	0.10
19000	0.40	21000	0.20
20000	0.20	22000	0.40
21000	0.20	23000	0.15
		24000	0.05

Use the following sequences of random numbers to be used for estimating costs and revenues. Obtain the probability distribution of the monthly net revenue.

Sequence 1	82	84	28	82	36	92	73	91	63	29
	27	26	92	63	83	02	10	39	10	10
Sequence 2	39	72	38	29	71	83	19	72	92	59
	49	39	72	94	04	92	72	18	09	00

[8]

7. **(a)** Evenkeel Ltd. manufactures and sells as single product X whose price is ₹ 40 per unit and the variable cost is ₹ 16 per unit.

(i) If the fixed costs for this year are ₹ 4,80,000 and the annual sales are at 60% margin of safety, calculate the rate of net return on sales, assuming an income tax level of 40%.

(ii) For the next year, it is proposed to add another product line Y whose selling price would be ₹ 50 per unit and the variable cost ₹ 10 per unit. The total fixed costs are estimated at ₹ 6,66,600. The sales mix of X:Y would be 7:3. At what level of sales next year, would Evenkeel Ltd. break even? Give separately for both X and Y the break even sales in rupees and quantities. **[8]**

(b) A manufacturing company currently operating at 80% capacity has received an export order from Middle East, which will utilise 40% of the capacity of the factory. The order has to be either taken in full and executed at 10% below the current domestic prices or rejected totally.

The current sales and cost data are given below.

Sales	₹16.00 lakhs.
Direct Material	₹ 5.80 lakhs.
Direct Labour	₹ 2.40 lakhs.
Variable Overheads	₹ 0.60 lakhs.
Fixed Overheads	₹ 5.20 lakhs.

The following alternatives are available to the management:

(i) Continue with domestic sales and reject the export order.

(ii) Accept the export order and allow the domestic market to starve to the extent of excess of demand.

(iii) Increase capacity so as to accept the export order and maintain the domestic demand by

- Purchasing additional plant and increasing 10% capacity and thereby increasing fixed overheads by ₹ 65,000 and
- Working overtime at one and half time the normal rate to meet balance of the required capacity.

You are required to evaluate each of the above alternatives and suggest the best one.

[8]

8. (a) M/s. N.C.Ltd. has received an enquiry from a reputed cigarette factory for the supply of 20 million shells per month. Capacity exists for the same but a balancing equipment costing ₹ 50,000 has to be installed.

The cost details are as follows:

Duplex board	- 50 tonnes @ ₹ 5.50 per kg.
Printing ink and gum	- ₹ 2 per 1000 shells
Packing cost	- ₹ 7.50 per one lakh shells
Labour hours	- 1,600 hours of which 500 hours will be overtime.
Labour rate	-₹4 per hour with double the rate for overtime.
Overheads	- ₹ 16,300 per month.
Selling and distribution expenses	- ₹ 16,300 per month

Since duplex board is in short supply, procurement is made on cash basis. Working capital to the extent of 50% of the sales value will be required.

The company expects a net return of 20% on the additional capital required for undertaking this order.

Prepare a cost estimate and indicate the price to be quoted to the customer. **[6]**

(b) S.V. Ltd. Manufacturers by mixing three raw materials. For every batch of 100Kg. of BXE, 125 Kg. of raw Materials are used. In April, 2016, 60 batches were prepared to produce an output of 5,600 Kg. of BXE. The standard and actual particulars for April, 2016 are as under:-

Raw Material	Mix %	Price Per Kg	Mix %	Price Per Kg	Quantity of Raw Materials purchased (kg)
A	50	20	60	21	5,000
B	30	10	20	8	2,000
C	20	5	20	6	1,200

Calculate all variances. **[10]**