

**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) Write about the four perspectives of Balanced Scorecard. [8]
- (b) The selling price of product P is set at ₹ 1,500 for each unit and sales for the coming year are expected to be 500 units.  
If the company requires a return of 15% in the coming year on its investment of ₹ 15,00,000 in product P. the TARGET cost for each unit for the coming year is.
- (i) ₹ 930  
(ii) ₹ 990  
(iii) ₹ 1,050  
(iv) ₹ 1,110 [3]
- (c) A concern sells three products. The budgeted fixed cost for the period is ₹ 6,00,000. The budgeted contribution to sales ratio (C/S ratio) and the sales mix are as under
- | Product | C/S ratio | Mix |
|---------|-----------|-----|
| Super   | 25%       | 20% |
| Premium | 40%       | 40% |
| Best    | 30%       | 40% |
- What is the Break Even sales revenue?
- (i) ₹ 30,10,181  
(ii) ₹ 15,23,312  
(iii) ₹ 18,18,181  
(iv) ₹ 17,60,500 [3]
- (d) A company manufactures two products using common material handling facility. The total budgeted material handling cost is ₹ 60,000. The other details are:
- |                                 | Product X | Product Y |
|---------------------------------|-----------|-----------|
| Number of units produced        | 30        | 30        |
| Material moves per product line | 5         | 15        |
| Direct labour hour per unit     | 200       | 200       |
- Under activity based costing system the material handling cost to be allocated to product X (per unit) would be:
- (i) ₹ 1,000  
(ii) ₹ 500  
(iii) ₹ 1,500  
(iv) ₹ 2,500 [3]
- (e) A company has developed a new product and just completed the manufacture of the first four units of the product. The first unit took 3 hours to manufacture and the first four units together took 8.3667 hours to produce. The learning curve rate is:
- (i) 69.5%  
(ii) 59.6%  
(iii) 75.0%  
(iv) 83.5% [3]

**Section B**

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

2. (a) Discuss different types of Bench-marking. [8]  
 (b) Define Strategic Drift. Describe how an organization prevents strategic drift. [8]
3. (a) Describe the objectives of SWOT Analysis and its advantages and criticisms. [8]  
 (b) Explain about the BCG Matrix. [8]
4. (a) List any 8 advantages of the Global Strategic Alliance. [8]  
 (b) What do you understand by Corporate Restructuring? Specify and discuss about Corporate Level Restructuring Strategies. [8]
5. (a) What are transformational and transactional leadership style? [8]  
 (b) A captain of a cricket team has to allot five middle batting positions to five batsmen. The average runs scored by each batsman at these positions are as follows:

Batting Position		III	IV	V	VI	VII
	Batsmen	A	40	40	35	25
	B	42	30	16	25	27
	C	50	48	40	60	50
	D	20	19	20	18	25
	E	58	60	59	55	53

Make the assignment so that the expected total average runs scored by these batsmen are maximum. [8]

6. (a) What are the benefits of ERP. [8]  
 (b) The usual learning curve model is  $Y = ax^b$  where  
 Y is the average time per unit for x units.  
 a is the time for first unit  
 x is the cumulative number of units  
 b is the learning coefficient and is  
 equal to  $\frac{\log 0.8}{\log 2} = -0.322$  for a learning rate of 80%
- Given that a = 10 hours and learning rate 80%, you are required to Calculate:  
 (i) The average time for 20 units.  
 (ii) The total time for 30 units.  
 (iii) The time for units 31 to 40.  
 Given that  $\log 2 = 0.301$ , Antilog of 0.5811 = 3.812  
 $\log 3 = 0.4771$ , Antilog of 0.5244 = 3.345.  
 $\log 4 = 0.6021$ , Antilog of 0.4841 = 3.049. [8]

7. (a) Study Horse Ltd., a cycle manufacturing company, has drawn up a programme for the manufacture of a new product for the purpose of fuller utilisation of its capacity. The scheme envisages the manufacture of baby tricycle fitted with a bell. The company

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estimates the sales of tricycles at 10,000 during the first year and expects that from the second year onwards the sales estimates will stabilise at 20,000 tricycles. Since the company has no provision for the manufacture of the small bells is initially proposed to be met by way of purchase from the market, at ₹ 8 each.

However, if the company desires to manufacture the bell in its factory by installation of new equipment, it has two alternative proposals as under:

	Installation of Super-X Machine	Installation of Janata Machine
Initial Cost of machine	₹ 3,00,000	₹ 2,00,000
Life	10 years	10 years
Fixed overheads other than depreciation on machines (per annum)	₹ 54,000	₹ 28,000
Variable expenses per bell	₹ 4.00	₹ 5.00

Depreciation on machine should be charged on straight-line basis.

**Required:**

- (i) For each of the two levels of output namely 10,000 and 20,000 bells state with suitable workings whether the company should purchase the bells from market or install new equipment for manufacture of bells. If your decision is in favour of the installation of new equipment, which of the two new machines should be installed?
- (ii) What would be your decision in case the forecast of requirement from the second year onwards is estimated at 40,000 bells instead of 20,000 bells.
- (iii) At what volume of bells will the installation of the two machines break-even.

**[8]**

- (b) The management accountant of X Ltd., has prepared the following estimates of working results for the year ending 31st December, 2014 for the purpose of preparing the budgets for the year ending 31st December, 2015.

		Year ending 31/12/2014
Direct material	₹ / unit	16.00
Direct wages	"	40.00
Variable overheads	"	12.00
Selling price	"	125.00
Fixed expenses	₹	6,75,000 p.a.
Sales	₹	25,00,000 p.a.

During the year 2015, it is expected that the material prices and variable overheads will go up by 10% and 5% respectively. As a result of re-organisation of production methods the overall direct labour efficiency will increase by 12% but the wage rate will go up by 5%. The fixed overheads are also expected to increase by ₹ 1,25,000.

The technical director states that the same level of output as obtained in 2014 should be maintained in 2015 also and efforts should be made to maintain the same level of profit by suitably increasing the selling price.

**Required:**

- (i) Present an income statement for the year 2014.
- (ii) Find the revised price and the percentage of increase in the price for 2015 if the Technical Directors' views are accepted.

**[8]**

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8. The summarised results of a company for the two years ended 31st December 2015 and 2014 are given below: -

	<b>2015</b>	<b>2014</b>
	₹ lacs	₹ lacs
Sales	770	600
Direct Materials	324	300
Direct Wages	137	120
Variable Overheads	69	60
Fixed Overheads	150	80
Profit	90	40

As a result of re-organisation of production methods and extensive advertisement campaign use, the company was able to secure an increase in the selling prices by 10% during the year 2015 as compared to the previous year.

In the year 2014, the company consumed 1,20,000 Kgs. of raw materials and used 24,00,000 hours of direct labour. In the year 2015, the corresponding figures were 1,35,000 kgs. of raw materials and 26,00,000 hours of direct labour.

**You are required to: -**

Use information given for the year 2014 as the base year information to analyse the results of the year 2015 and to show in a form suitable to the management the amount each factor has contributed by way of price, usage and volume to the change in profit in 2015.

**[16]**