

PAPER 15 – BUSINESS STRATEGY AND STRATEGIC COST MANAGEMENT

MTP_Final_Syllabus 2012_Jun2015_Set 2

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

	Learning objectives	Verbs used	Definition	
LEVEL C	KNOWLEDGE	List	Make a list of	
	What you are expected to know	State	Express, fully or clearly, the details/facts	
		Define	Give the exact meaning of	
	COMPREHENSION	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
			Identity	Recognize, establish or select after consideration
			Illustrate	Use an example to describe or explain something
	APPLICATION	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
	ANALYSIS	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
	SYNTHESIS	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	
EVALUATION	How you are expected to use your learning to evaluate, make decisions or recommendations	Advise	Counsel, inform or notify	
		Evaluate	Appraise or asses the value of	
		Recommend	Propose a course of action	

Paper 15 - Business Strategy and Strategic Cost Management

Time Allowed: 3 hours

Full Marks: 100

This paper contains 4 questions, representing two separate sections as prescribed under syllabus 2012. All questions are compulsory, subject to the specific guidance/ instructions stated against each question. All workings, wherever necessary, must form a part of your answer. Assumptions, if any, should be clearly stated.

Question No. 1. (Read the Case and Answer the following Questions)

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) Evaluate 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]

Question No. 2. (Answer **any two** questions. Each question carries **15 marks**)

2. (a)

- (i) Discuss the Simultaneous and Sequential games
- (ii) List any eight advantages and any four disadvantages of the Global Strategic Alliance.
- (iii) Difference between Policy and Strategy. [5+6+4]

2.(b)

- (i) State the industry characteristics which influence the intensity of rivalry among the firms.
- (ii) Explain the objectives of SWOT Analysis and its Advantages. [10+5]

2.(c)

- (i) The process of Strategy formulation basically involves six main steps." –Explain these six steps. [6]
- (ii) State loss leaders. Mention its four specific uses. [1+4]
- (iii) List out the four levels of the residual uncertainty facing most strategic-decision makers. [4]

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Question No. 3. (Read the Case and Answer the following Questions)

3. Hero Cycles has two divisions, A and B, which manufacture expensive bicycles. Division A produces the bicycle frame, and Division B assembles the rest of the bicycle onto the frame. There is a market for both the subassembly and the final product. Each division has been designated as a profit center. The transfer price for the subassembly has been set at the long-run average market price.

The following data are available for each division:

	₹
Selling price for final product	3,000
Long-run average selling price for intermediate product	2,000
Incremental costs for completion in Division B	1,500
Incremental costs in Division A	1,200

The manager of Division B has made the following calculation:

	₹	₹
Selling price for final product		3,000
Transferred-in costs (market)"	2,000	
Incremental costs for completion	1,500	3,500
Contribution (loss) on product		(500)

Required:

- (I) Should transfers be made to Division B if there is no unused capacity in Division A? Is the market price the correct transfer price? Show your computations.
- (II) Assume that Division A's maximum capacity for this product is 1,000 units per month, and sales to the intermediate market are now 800 units. Should 200 units be transferred to Division B? At what transfer price? Assume that for a variety of reasons, Division A will maintain the ₹ 2,000 selling price indefinitely. That is, Division A is not considering lowering the price to outsiders even if idle capacity exists.
- (III) Suppose Division A quoted a transfer price of ₹ 1,500 for up to 200 units. What would be the contribution to the company as a whole if a transfer were made? As manager of Division B, would you be inclined to buy at ₹1,500? Explain. [8+5+7]

Question No. 4. (Answer **any two** questions. Each question carries **15 marks**)

4.(a)

- (i) State the differences in Programme Evaluation and Review Technique (PERT) and Critical Path Method (CPM) [5]
- (ii) X uses traditional standard costing system. The inspection and setup costs are actually ₹ 1,760 against a budget of ₹ 2,000. ABC system is being implemented and accordingly, the number of batches is identified as the cost driver for inspection and setup costs. The budgeted production is 10,000 units in batches of 1,000 units, whereas actually, 8,800 units were produced in 11 batches.

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- (I) Find the volume and total fixed overhead variance under the traditional standard costing system.
- (II) Find total fixed overhead cost variance under the ABC system. [4+6=10]

4.(b)

- (i) An agriculturist has 480 hectares of land on which he grows Onion, tomatoes, Cabbage and carrots. Out of the total area of land, 340 hectares are suitable for all the four vegetables but the remaining 140 hectares of land are suitable only for growing Cabbage and carrots. Labour for all kinds of farm work is available in plenty.

The market requirement is that all the four types of vegetables must be produced with a minimum of 5,000 boxes of any one variety. The farmer has decided that the area devoted to any crop should be in terms of complete hectares and not in fractions of a hectare. The only other limitation is that not more than 1,13,750 boxes of any one vegetable should be produced.

The relevant data concerning production, market prices and costs are as under:

	Onion	Cabbage	Carrots	Tomatoes
Annual yield:				
Boxes per hectare	350	100	70	180
	₹	₹	₹	₹
Costs:				
Direct material per hectare	952	432	384	624
Direct Labour:				
Growing per hectare	1792	1216	744	1056
Harvesting and packing per box	7.20	6.56	8.80	10.40
Transport per box	10.40	10.40	8.00	19.20
Market price per box	30.76	31.74	36.80	44.55

Fixed expenses per annum:	₹
Growing	1,24,000
Harvesting	75,000
Transport	75,000
General administration	1,50,000

It is possible to make the land presently suitable for Cabbage and carrots, vegetable for growing Onion and tomatoes if certain land development work is undertaken. This work will involve a capital expenditure of ₹6,000 per hectare which a bank is prepared to finance at the rate of interest of 20% p.a. If such improvement is undertaken, the harvesting cost of the entire crop of tomatoes will decrease on an average by ₹2.60 per box.

Required:

- (I) Calculate, within the given constraint, the area to be cultivated in respect of each crop to achieve the largest total profit and the amount of such total profit before land development work is undertaken.
- (II) Assuming that the other constraints continue, advice the grower whether the land development schemes should be undertaken and if so the maximum total profit that would be achieved after the said development schemes is undertaken. [6+6]

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(ii) Write short note on Opportunity Cost. [3]

4.(c)

(i) The data of running costs per year and resale price of equipment A whose purchase price is ₹2,00,000 are as follows:

Year-	1	2	3	4	5	6	7
Running cost (₹ '000)	30	38	46	58	75	90	110
Resale value (₹ '000)	100	50	25	12	8	8	8

(I) What is the optimum period for replacement?

(II) When equipment A's age is two years old, equipment B which is a new model for the same usage is available. The optimum period for replacement is 4 years with an average cost of ₹ 72,000. Should equipment A be changed with equipment B? If so, in which year it will be replaced? [3+1+3]

(ii) Fit straight line by the least square method to the following figures of production of Sugar Factory. Estimate the production for the year 2015.

Year	2008	2009	2010	2011	2012	2013	2014
Production(in Lakh tons)	76	87	95	81	91	96	90

[4]

(iii) Why is Lean Accounting Needed? [4]