

**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) Discuss different types of Bench-marking. [8]

(b) The budgeted fixed overhead for the year 2016 amounted to ₹14,400. It is anticipated that 288 days would be worked during the year. During the month of February, 2016 only 20 days were worked. Find out Calendar Variance. [3]

(c) 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: [3]

- (i) ₹ 1,000
- (ii) ₹ 500
- (iii) ₹ 1,500
- (iv) ₹ 2,500

(d) A company has forecast sales and cost of sales for the coming year as ₹ 25 lakhs and ₹ 18 lakhs respectively.

The inventory turnover has been taken as 9 times per year. In case the inventory turnover increases to 12 times and the short term interest rate on working capital is taken as 10%, what will be saving in cost? [3]

- (i) ₹ 10,000
- (ii) ₹ 20,000
- (iii) ₹ 15,000
- (iv) ₹ 5,000

(e) 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]

- (i) 1,00,000 units
- (ii) 1,11,000 units
- (iii) 1,27,000 units
- (iv) 75,000 units

## Section B

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

2. (a) Define the term 'Corporate Strategy.' [3]  
(b) Mention the steps in 'Strategic Planning' process. [4]  
(c) Some people in the organization resort to political maneuvers for their own personal advantage. — Discuss the different individual and organizational factors that contribute to political behavior. [9]
3. (a) What are the necessities of 'Environmental Analysis and Diagnosis' in managerial decision? [6]  
(b) What is meant by the term 'Strategic Group Analysis' (SGA)? Give four examples of SGA. [3+2]  
(c) What are the steps to be followed in Porter's Generic Business Level Strategy? [5]
4. (a) Describe the objectives of SWOT Analysis and its advantages and criticisms. [8]  
(b) Enumerate the advantages of strategic planning. [8]
5. (a) What is the purpose of preparation of 'Lean accounting'? [3]  
(b) What control process should be considered in 'Target Costing' project? [3]  
(c) A manufacturing company has the following production budget for November 2016:  
Product A = 20,000 units and Product B = 40,000 units  
A standard hour represents 10 units of A and 8 units of B.  
Standard wage rate per hour is ₹ 0.50  
During the month 7500 hours were paid for @ ₹ 0.60 per hour, which included 350 unproductive hours due to unbudgeted holidays as also loss of production of 250 units of Product-A due to machine breakdown.  
Actual production for the month was 24,000 units of A and 38,000 units of B.  
**Calculate the following:**  
(i) Direct labour rate variance  
(ii) Direct labour idle time variance  
(iii) Direct labour efficiency variance.  
(iv) Direct labour total variance. [2½×4=10]

6. (a) What is BPR? How can BPR be applied to an organisation? [2+6]  
(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 or cost data are given below:

Items	₹lakhs
Sales	16.00
Direct Material	5.80
Direct Labour	2.40

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Variable Overheads	0.60
Fixed Overheads	5.20

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.

**[6+2]**

7. (a) S.U.Ltd. produces three products namely A, B, and C. The budgeted production, costs and selling prices for the next year are as under:

Particulars	Product A	Product B	Product C
Direct Materials (₹ per unit)	24	16	12
Direct Wages:			
Department rate/Hour			
Dept. 1: ₹4 Hrs/unit	3	5	25
Dept. 2: ₹2 Hrs/unit	3	8	6
Budgeted production (units)	10,000	12,000	20,000
Max. possible sales(units)	12,000	16,000	24,000
Selling price (₹ per unit)	75	105	60

Variable overheads:

Dept. 1: Recovered at 100% of direct wages.

Dept. 2: recovered at 50% of direct wages.

Fixed overheads: ₹5,00,000 per annum.

A direct labour hour in Dept. 1 is in short supply and the budgeted volume of output envisages full utilisation of the available direct labour hour. In Dept.2, the company has committed to engage the workers to the extent of the direct labour hours required for the budgeted volume of production. Should a change in the production mix be desired, the company can engage additional direct labour hours required in Dept.2 at normal rates but any portion of the direct labour hours of Dept.2 rendered surplus by reasons of a change in the present product mix have to be paid by the company as idle wages in view of the commitment already made.

**Required:**

- (i) Present a statement showing the budgeted profitability.
  - (ii) Set optimal product mix and work out the optimum profit after taking into consideration the idle time wages, if any, payable in the Dept.2.
  - (iii) If the company desires to subcontract the surplus direct labour hours, if any, in Dept.2, what minimum charges should be quoted per direct labour hour? **[4+5+1]**
- (b) What is meant by the term "cost pool" and "cost driver" in Activity Based Costing (ABC)? Give example in reference to R&D activity. **[2+2+2]**
8. (a) 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:

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Batting Position						
		III	IV	V	VI	VII
Batsmen	A	40	40	35	25	50
	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]**

**(b)** Discuss various types of merger. **[8]**