P 15 : Business Strategy & Strategic Cost Management

Section A

Full Marks: 100 **Time : 3 hours**

Question No. 1 & 2 are compulsory. Answer any two questions from the rest.

1. Hassan is one of the India's leading detergent manufacturing companies. The firm has more than twenty-five product types. These have been developed over a period of its ten year existence. Some products are very successful while others have not performed well. The challenge for the board has been the formulation of strategy policy in the way the company manages the portfolio of products.
As a newly recruited qualified Cost Accountant, your advice is being sought to address the following questions the Product manager has prepared as input into his paper to the Board.

(a) Describe the Boston Consulting Group (BCG) growth vector matrix.
(b) Explain what strategic options are available to Hassan in accordance to the BCG Matrix.
(c) Outline what limitations the model poses to the Product Manager as he prepares his paper to the Board (10+2+3=15)

2. Taifa Bank, a subsidiary of an International Bank has experienced a serious decline in its business performance. The deposits are down, the loan portfolio has a lot of bad debts and head office is planning to slash the level of investment in the bank.

Use Porter's Five Forces of Competition Model to establish the impact of competition on the overall performance of the bank.

Explain how Taifa Bank can use Porter's Five Forces Model in evaluating why there has been a decline in performance. (9+6=15)

3. What are the steps involved in formulating diversification strategy ? (10)

4. (a) What is 'synergy'? Explain its significance in strategy making ? (5)

(b) What do you understand by "Corporate Reconstructing"? Specify and discuss about Corporate Level Restructuring Strategies. (5)

5. Dramatic cost advantages can emerge from finding innovative ways to restructure processes and tasks, cut frills and provide the basics more economically

(i) List the primary ways by which companies can achieve a cost advantage by reconfiguring their value chains.
(ii) Explain the way a cost leadership strategy can help a firm in handling the five competitive forces.
(iii) Identify the elements in the marketing mix that would be particularly relevant to a manufacturer of domestic washing machine. (3+4+3=10)

Section B

Question No 6 is Compulsory. Answers any two questions from the rest.

6. Five Swimmers are eligible to compete in a relay team that should have four swimmers swimming different styles- backstroke, breaststroke, free style and butterfly. The time taken for the five swimmers - Anand, Balu, Chandru, Deepak and Eswar – to cover a distance of 100 metres in various swimming styles are given below in minutes: seconds. Anand swims backstroke in 1:09, breaststroke in 1:15 and has never competed in free style or butterfly. Balu is a free style specialist averaging 1:01 for 100 metres but can also swim breaststroke in 1:16 and butterfly in 1:20. Chandru swims all styles, backstroke 1:10, breaststroke 1:12, free style 1:05 and butterfly 1:20. Deepak swims only butterfly at 1:11 while Eswar swims backstroke 1:20, breaststroke 1:16, free style 1:06 and butterfly 1:10. Which swimmers should be assigned to which swimming style? Who will not be in the team?

(10)

7. (a) SOLID Company manufactures a product whose standard cost is as under-

Direct material	-5 units at ₹3	15
Direct labour	-5 hours at ₹5	25
Production overhead	-5 hours at ₹4	20

Profit margin is at 25% on sale price. Budgeted sales for the period is ₹39,200.

For a period, the actual sales were ₹35,000 while actual material and labour cost were ₹8,000 and ₹12,000 respectively. The analysis of variances for the period is as follows-

Direct materials	Price	800A	-
	Usage	-	405F
Direct Labour	Rate	-	975F
	Efficiency	300A	-
Production OH	Expenditure	200A	-
	Volume	-	340F

Assume that there is no change in stock and that there are no other overhead.

You are required to compute the following from the above details-

Actual production	Production Overhead Efficiency Variance
Actual profit	Production Overhead Capacity Variance
Actual Hours worked	Sales Price Variance
Budgeted Hours	Sales Volume profit Variance

Also, prepare a reconciliation statement. (2x 5=10)

(b) Domestic political trouble in the country of an overseas supplier is causing concern in your company because it is not known when further supplies of raw material 'x' will be received. The current stock held of this particular raw material is 17,000 kgs., which costs ₹1,36,000.

Based on raw material 'x', your company makes five different products and expected demand for each of these, for the next three months, is given below together with relevant information.

Product Code	Kilogram of raw material 'x'/units of finished product (kg.)	Direct labour hours/unit of finished product (Hrs.)	Selling price/unit (₹)	Expected demand over three months (units)
701	0.7	1.0	26	8,000
702	0.5	0.8	28	7,200
821	1.4	1.5	34	9,000
822	1.3	1.1	38	12,000
937	1.5	1.4	40	10,000

The direct wages rate/hour is ₹5 and production overhead is based on direct wages cost. The variable overhead absorption rate being 40% and the fixed overhead absorption rate being 60%. Variable selling costs, including sales commission are 15% of selling price.
Budgeted fixed selling and administration costs are ₹3,00,000 per annum. Assume that the fixed production overhead incurred will equal the absorbed figure.
You are required to:

(i) Show what quantity of the raw material on hand ought to be allocated to which products in order to maximize profits for the forthcoming three months.
(ii) Present a brief statement showing contribution and profit for the forthcoming three months, if your suggestion in (i) is adopted. (5+5=10)

8. (a) Titan Engineering is operating at 70% capacity and presents the following information:

Break-even point ₹200 core
P/V ratio 40%
Margin of safety ₹50 core.

Titan's management has decided to increase production to 95% capacity level with the following modifications:

(i) The selling price will be reduced by 8%
(ii) The variable cost will be reduced by 5% on sales
(iii) The fixed cost will increase by ₹20 crore, including depreciation on additions but excluding interest on additional capital.
(iv) Additional capital of ₹50 crore will be needed for capital expenditure and working capital.

Required:

I. Indicate the sales figures, with the working, that will needed to earn ₹10 crore over and above the present profit and also meet 20% interest on the additional capital. (5)
II. What will be the revised
(i) Break-even point
(ii) P/V ratio
(iii) Margin of safety? (1+1+1=3)

(b) Discuss different types of Bench-marking. (4)

(c) Choco Chips produces two brands of chocolate chip cookies: Chippo and Choco. Choco Chip's cookies are produced from two ingredients: Chocolate chips and cookie dough. Chippo is 50% chips and 50% dough, whereas choco is 25% chips and 75%dough.
Package of either brand weigh 1 kg. Choco Chip's master budget projects sale of 5,00,000 packages of each product in 2013.According to the master budget, estimated selling prices are 30 per package for each product. Forecasted 2013 ingredients costs are as follows: 1 kg of chocolate will cost ₹20, and 1 kg of cookie dough will cost ₹10. A total of 5,000 direct manufacturing labour-hour-2,000 hours for chippo and 3,000 hours for choco- are budgeted at the hourly rate of ₹20 per hour. Indirect manufacturing costs are expected to be ₹16,00,000. The indirect manufacturing costs are allocated equally between chips and choco on the basis of packages produced in 2013.

Required:

(i) Use the preceding information to calculate Choco Chip's budgeted gross margins for 2013.
(ii) By working with suppliers, Choco Chips was able to reduce the purchase cost of ingredients by 3%. Calculate Choco Chip's revised gross margin for 2013.
(iii) Assume that in addition to the 3% reduction in the purchase cost of ingredients mention in requirement 2, Choco Chips plans a 1% cost reduction in direct manufacturing labour-hours and a 2% cost reduction in the indirect manufacturing costs from the original data. These revisions to the original budget resulted from an analysis of all activities by a cross functional

team as a part of Choco Chip's efforts towards continuous improvement. Compute Choco Chip's revised gross margin of 2013 under these assumptions. (3+3+2=8)

9. (a) Why is Lean Accounting Needed? (4)

(b) A company manufactures two products using its maximum capacity of 30,000 machine hours. The price and cost data relating to the two products are as under:

	Product A	Product B
Selling price	₹/unit 400	560
Material cost	₹/unit 160	200
Variable conversion cost	₹/unit 40	120
Maximum sales Potential (units)	75,000	35,000
Production per machine hour (units)	3.125	2.5
Total fixed overheads - ₹84 lac		

As the company uses just-in-time system, the stocks of work-in-process and finished goods are negligible.

Required:

(i) Determine the optimal product mix using marginal costing.

(ii) Calculate the throughput accounting ratio for each product and rank the products for manufacture.

(iii) Based on the concept of throughput accounting, compute the product mix to yield maximum profit. For this purpose, use the total variable costs as calculated on the basis of the product mix obtained by using the marginal costing method in (i) above.

(6+6+4)