Solved Scanner Appendix

CMA Final Gr. III (New Syllabus)

(**Solution of December 2014)**

Paper - 15: Business Strategy and Strategic Cost Management

Paper - 15 A: Business Strategy

Chapter - 1: Business Strategy
2014 - Dec [4]

(a) Strategic decisions are the decisions that are concerned with whole environment in which the firm operates the entire resources and the people who form the company and the interface between the two.

The characteristics of strategic decision are as follows:

(i) Strategic decisions are likely to affect the long-term direction of an organisation.

(ii) Strategic decisions are normally about trying to achieve some advantage for the organisation.

(iii) Strategic decisions are likely to be concerned with the scope of an organization's activities: Does (and should) the organisation concentrates on one area of activity or does it have many? The issue of scope of activity is fundamental to strategic decisions because it concerns the way in which those responsible for managing the organisation conceive its boundaries. It is to do with what they want the organisation to be like and to be about.

(iv) Strategy is to do with the matching of the activities of an organisation to the environment in which it operates.

(v) Strategy can also be seen as 'stretching' an organization's resources and competencies to create opportunities or capitalize on them. It is not just about countering environmental threats and taking advantage of environmental opportunities; it is also about matching organizational resources to these threats and opportunities. There would be little point in trying to take advantage of some new opportunity if the resources needed were not available or could not be made available or if the strategy was rooted in an inadequate resource-base.

(vi) Strategic decisions therefore often have major resource implications for an organisation. In the 1980s a number of UK retail firms had attempted to develop overseas with little success and one of the major reasons was that

they had underestimated the extent to which their resource commitments would rise and how the need to control them would take on quite different proportions. Strategies, then, need to be considered not only in terms of the extent to which the existing resource-base of the organisation is suited to the environmental opportunities but also in terms of the extent to which resources can be obtained and controlled to develop a strategy for the future.

(vii) Strategic decisions are therefore likely to affect operational decisions, to set off waves of lesser decisions'.

(viii) The strategy of an organisation will be affected not only by environmental forces and resource availability, but also by the values and expectations of those who have power in and around the organisation. In some respects, strategy can be thought of as a reflection of the attitudes and beliefs of those who have the most influence on the organisation. Whether a company is expansionist or more concerned with consolidation, and where the boundaries are drawn for a company's activities, may say much about the values and attitudes of those who influence strategy -- the stakeholders of the organisation. The beliefs and values of these stakeholders will have a more or less direct influence on the organisation.

(b) Strategy is the direction and scope of an organisation over the long term, which achieves advantage for the organisation through its configuration of resources within a changing environment, to meet the needs of markets and fulfil stakeholder expectations.

Strategic decisions are, then, often complex in nature: it can be argued that what distinguishes strategic management from other aspects of management in an organisation is just this complexity. The complexity arises for atleast three reasons. First, strategic decisions usually involve a high degree of uncertainty: they may involve taking decisions on the basis of views about the future which it is impossible for managers to be sure about. Second, strategic decisions are likely to demand an integrated approach to managing the organisation. Unlike functional problems, there is no one area of expertise or one perspective that can define or resolve the problems. Managers, therefore, have to cross functional and operational boundaries to deal with strategic problems and come to agreements with other managers who, inevitably, have different interests and perhaps different priorities. This problem of integration exists in all management tasks but is particularly problematic for strategic decisions. Third, as has been noted above, strategic decisions are likely to involve major change in organizations. Not only is it problematic to decide upon and plan those changes, it is even more problematic actually to implement them. Strategic management is therefore distinguished by a higher order of complexity than operational tasks.

(c) Tata developed the Nano car world's cheapest car. Tata want to provides car to all common man but unfortunately that didn't go down with buyers too well. From starting Tata Nano car faced trouble in factory establishment and many other issues. But now Tata comes out stronger on other side and ready to offer Nano automatic transmission.

With the new Nano Twist and the Nanoe- Max a few months back, Nano portfolio stands true to its brand essence: of a youthful, exciting car offering great value but, at the same time, builds in a different set of features to suit differing customer needs.

Focus on youth: The attempt over the past year has been to attract youngsters. To build a youthful and aspirational value around the brand, Tata Motors through its 'awesomeness' branding and marketing campaign worked with fashion designer Masaba Gupta on the launch of the Twist. The make over campaign is an attempt to get youngsters to look at the Nano as a fashion accessory. The company promises more on-ground activities and showcases at colleges to woo the youth.

Fresh positioning: From a people's car and the world's cheapest, the Nano is now positioned as the smart city car for young achievers. While the perception of a cheap car has still not gone away, the profile of the consumer has tremendously improved - along with the features in the car. Based on market research, Tata Motors has segmented potential customers into first-time buyers, those looking for a replacement or an additional car and others who want more features and performance. Near-term plans include a variant with automated transmission to strengthen the smart city car positioning. With all the significant product changes, it is a really easy-to drive car, great to manoeuvre, with a distinct individuality and color and offering what no car can in this price range - a great style, entertainment and music, industry-leading power steering and more. The repositioning will make the product cater to a larger number of customer segments.

Chapter - 2: Strategy Development

2014 - Dec [2]

(i) Strategic planning is the process of developing a direction for the future and detailing how to get there-how to reach a vision, how to solve a problem or how to implement a program or project. Simply put, strategic planning for an organization or community determines; where it is going, how it will get there, and when its goals are reached. Unlike business plans, which focus on a particular product, service or program, strategic planning focuses on the entire organization. Strategic Planning can be broken down into two components: strategy and tactics. Strategy determines the overall direction of a plan and establishes its principle goals or mission; tactics concern the detailed plans, choices and decisions made to reach the primary goal. In sum, strategy helps people choose and implement tactics. Following are the aspects that are embedded in the definition of strategic planning:

1. **Why your business exists?:**
   Yes I know it’s to make money. But what I’m talking about here is… what does it do for the people it serves, i.e. your clients? What is it’s purpose? Answering this question (which is actually quite difficult) is the starting point for creating a clear strategic plan. Ours, for example, is “to help the owners and partners professional services firms to build better businesses”.
2. **What is your “Strategic Vision”?:**
   This is a simple description written in the present tense, but from 3 years in the future about exactly what your business looks like. How many clients will it serve? What about the number of professional and other staff? The level of revenue and profit? What do you want clients, suppliers, staff and commercial partners to say and feel about the business?
   Once you have these first 2 components nailed, it makes the decision making process around what to do (and what not to do) so much easier.
3. **Critical Success Factors:**
   What core competencies have helped you to get to where you are today? What new competencies do you need to develop in order to continue to be successful? Remember, what has got you to where you are, may not get you to where you want to be. What are the 5 key things, that if you execute them really well (and consistently) will make your business hugely successful financially and from a customer attraction/retention perspective?
4. **Operational Goals:**
   These are simply the most important goals for your business in the next year. And to make sure that you pay attention to all aspects of your business, not just the financial results, specific objectives should be developed in the following 4 areas:
   (1) Financial (revenue/profit/recurring revenue)
   (2) Client (quality/acquisition/retention/experience)
   (3) People (professional development/performance management /recruitment/retention/remuneration)
   (4) Process Improvement (efficiency / effectiveness / consistency / automation / cost reduction):
   Establishing clear measures for each of these goals to help you track progress through the year, will give you a solid and effective framework for monitoring how you’re doing.
5. **Next Steps and Key Decisions:** Once your goals are set, you will need to identify your “Big Rocks”; the key actions or steps that need to be taken in order to execute the strategy effectively. Having a plan is one thing. Executing it is entirely another. Most businesses struggle to fulfil their potential, due to their lack of ability to execute effectively. Having a framework for recording and tracking these “big rocks” and ensuring that one

individual is accountable for ensuring they get done is crucial. It requires discipline to set the time aside to do what needs to be done and regular reviews to hold everyone accountable for their part in executing the plan.

(ii) It truly requires a vision to know what you are aiming for, together with a plan of action to know what to do in order to achieve your vision. The best possibility thinking in the world will not ensure your success. It will ensure the opportunities can be in your reach if you figure out the means to capture them. Gone are the days when an organization can be a success despite itself. It takes concerted effort to establish the direction you need to go in, position it as a common focus for everyone in the organization and have a structured plan of action that everyone can execute. The risk of not having a strategic plan could be:

- not being prepared to deal with changes in the environment that the organization is confronted with
- sections or individuals in the organization following their own agendas
- incongruent communications transmitted to stakeholders
- inefficiencies and ineffectiveness throughout the operation.

You could choose to do business as usual, with the hope that the environment does not change around you. Alternatively, you can make a concerted effort to remain ahead of the curve by ensuring that the organization's position in the market place is secure and that its processes and resources are optimized and agile enough to change as the need requires.

(iii) The common shortcomings in strategic planning are as follows:

(i) Non-availability of correct and accurate data.
(ii) Doing strategic planning only to satisfy accreditation or regulatory requirements.
(iii) Failing to communicate the plan to the people who execute the plan.
(iv) Top management making intuitive decisions that conflict with formal plan.
(v) Failing to use plans as a standard for measuring performance.
(vi) Delegating tasks to a few persons rather than involving all managers.
(vii) Failing to involve key employees in all phases of planning.
(viii) Failing to create an environment conducive of change.
(ix) Lack of flexibility and creativity.
(x) Strategic planning usually restricted to hard business concerns, leaving without proper attention for soft issues like customer, quality, labour productivity, social concerns etc.
(xi) Strategy planning sometimes becomes a routine exercise, without having proper attention to strategic issues.
(xii) The planning process is isolated from the external groups that critically affect the company like labour unions, consumer advocates, social service organizations etc.

Chapter - 3: Strategic Position

2014 - Dec [1] {C}

(a) Chawama Enterprises relies on strengths to capture opportunities and recognize weaknesses to avoid becoming a victim of environmental threats. A company performs an environmental analysis to gain an understanding of these strengths, weaknesses, opportunities and threats. The environmental analysis then influences corporate planning and policy decisions. This environmental analysis is a three-step process in which a company first identifies environmental factors that affect its business. For example, the company might consider if a market is "difficult" because of its remote geographic location or the area's unfavorable economic conditions. The company then gathers information about the selected set of environmental factors that are most likely to impact business operations. For example, the company might review International Trade Center surveys that relay information about trade barriers that companies face in particular countries. This information serves as input to a forecast of the impact of each environmental factor on the business. For instance, a company might project the volume of products likely to be sold in a country in light of existing poor economic conditions and significant trade barriers.

(b) Five Forces Analysis assumes that there are five important forces that determine competitive power in a business situation. These are:

1. **Supplier Power:** Here you assess how easy it is for suppliers to drive up prices. This is driven by the number of suppliers of each key input, the uniqueness of their product or service, their strength and control over you, the cost of switching from one to another and so on. The fewer the supplier choices you have and the more you need suppliers' help, the more powerful your suppliers are.
2. **Buyer Power:** Here you ask yourself how easy it is for buyers to drive prices down. Again, this is driven by the number of buyers, the importance of each individual buyer to your business, the cost to them of switching from your products and services to those of someone else and so on. If you deal with few, powerful buyers, then they are often able to dictate terms to you.
3. **Competitive Rivalry:** What is important here is the number and capability of your competitors. If you have many competitors and they offer equally attractive products and services, then you'll most likely have little power in the situation, because suppliers and buyers will go elsewhere if they don't get a good deal from you. On the other hand, if no-one else can do what you do, then you can often have tremendous strength.

4. **Threat of Substitution:** This is affected by the ability of your customers to find a different way of doing what you do – for example, if you supply a unique software product that automates an important process, people may substitute by doing the process manually or by outsourcing it. If substitution is easy and substitution is viable, then this weakens your power.
5. **Threat of New Entry:** Power is also affected by the ability of people to enter your market. If it costs little in time or money to enter your market and compete effectively, if there are few economies of scale in place or if you have little protection for your key technologies, then new competitors can quickly enter your market and weaken your position. If you have strong and durable barriers to entry, then you can preserve a favorable position and take fair advantage of it.

2014 - Dec [3] (a) Benchmarking is defined "as the continuous, systematic process of measuring one's output and/or work processes against the toughest competitors or those recognized best in the industry."Benchmarking is an approach of setting goals and measuring productivity based on best industry practices. Benchmarking helps in improving performance by learning from best practices and the processes by which they are achieved. It involves regularly comparing different aspects of performance with the best practices, identifying gaps and finding out novel methods to not only reduce the gaps but to improve the situations so that the gaps are positive for the organization. Benchmarking is periodical exercise for continuous improvement within the organization so that the organization does not lag behind in the dynamic business environment.

Benchmarking should not be treated as just comparison. It is necessary to have a point of reference to know how well one is doing. In a business environment with cut-throat competition it is necessary to gain edge over their competitors. Benchmarking helps organization to get ahead of competition.

Comparing the results with a competitor helps the management to get a goal that is both desirable and achievable but provides no clue on how the goals are to be achieved. It is a comparison of work progress that tells us how the competitor follows a process which produces outstanding results and this is the essence of benchmarking.

The important merits of benchmarking are summarized as follows:

(a) It increases customer satisfaction.
(b) It leads to significant cost savings and improvements in products and services.
(c) It helps in improving strategic planning by providing assessment of strengths and weaknesses of current process.

Chapter - 5: Strategic Integration

2014 - Dec [3] (b) (i), (ii), (iii)

(i) Nowadays, inter-firm linkages have become the most important part of a company's strategy. For many different reasons and to become more competitive, companies understood well worldwide trade rules. That is why linkages like partnerships, alliances, mergers and acquisitions, are steps in a company's life that cannot be avoided. Companies may opt for Strategic Alliance because of following reasons:

1. Technology know-how
2. Financial Assets
3. Competition
4. Market Segment Access
5. Access to inputs, outputs and management experiences
6. Complementary resources and capabilities.

(ii) Following are the critical factors for strategic alliance:

1. Critical to the success of a core business goal or objective.
2. Critical to the development or maintenance of a core competency or other source of competitive advantage.
3. Blocks a competitive threat.
4. Creates or maintains strategic choices for the firm.
5. Mitigates a significant risk to the business.

(iii) The reasons or motives of merger can be classified under the following heads: A. Strategic Motives, B. Organizational Motives, and C. Financial Motives.

A. Strategic Motives

1. Expansion and Growth
2. Dealing with the entry of MNCs (Multinational companies)
3. Economies of Scale
4. Synergy
5. Backward / Forward Integration
6. New Product Entry
7. New Market Entry
8. Risk Reduction
9. Balancing Product Cycle

B. Organizational Motives

1. Ego Satisfaction
2. Retention of Managerial Talent
3. Removal of Inefficient Management

C. Financial Motives

1. Tax Planning
2. Revival of Sick Unit
3. Increases the P/E Ratio
4. Rising of Capital

Paper - 15 B: Strategic Cost Management

Chapter - 1 Strategic Cost Management, Control & Decision Making
2014 - Dec [5] {C} (i)

Statement showing computation of contribution per kilogram of material and determination of priority for profitability:

	701	702	821	822	937
	₹	₹	₹	₹	₹
Selling Price	26	28	34	38	40
Variable Cost					
Direct Material	5.6	4	11.2	10.4	12
Direct labour	5	4	7.5	5.5	7
Production Overheads	2	1.6	3	2.2	2.8
Selling Expenses	3.9	4.2	5.1	5.7	6
Total Variable Cost	16.5	13.8	26.8	23.8	27.8
Contribution	9.5	14.2	7.2	14.2	12.2
Contribution per kilogram of material	13.57	28.4	5.14	10.9	8.13
Priority	2	1	5	3	4

(ii) Statement showing optimum mix under given conditions and computation of profit at that mix:

	701	**702**	**822**	**Total**
No. of Units	8,000	7,200	6,000	
Contribution per Unit (₹)	9.5	14.2	14.2	
Total Contribution (₹)	76,000	1,02,240	85,200	2,63,440
Fixed Cost (₹)				1,36,080
Profit (₹)				1,27,360

Working Notes:

Computation of material apportion on the basis of priority

	(Kg.)
Available material	17,000.00
Less: used for 702 (7,200 x 0.5)	3,600.00
	13,400.00
701 (8,000 x 0.7)	5,600.00
	7,800.00

Therefore no. of units of 822 to be produced from remaining material (7,800/1.3) = 6,000 Units

Fixed Costs:

	₹
Selling and adm. Overheads [(3,00,000/12) × 3]	75,000
Factory overheads [(8,000 × 5 × 60%) + (7,200 × 4 × 60%) + (6,000 × 5.5 × 60%)]	61,080
	1,36,080

2014 - Dec [6] (a)

Present Selling Price = ₹ 15,00,000/15,000 = ₹100 per unit

Present Cost Structure:

	₹
Direct materials (30% of sales value)	4,50,000
Direct labour (20% of sales value)	3,00,000
Variable overheads (₹ 10 per unit)	1,50,000
	9,00,000
Contribution	6,00,000
Profit (₹ 16.67per unit)	2,50,000
Fixed Overheads	3,50,000

Comparative statement of the proposals (Revised cost basis)

	Present Capacity	**Maximum Capacity**	**Present plus 10,000 units**
Units	15000	20000	25000
Sales Value	1500000	2000000	1500000
			900000
			2400000
Direct material (33% on sales value)[10/15×495000]	495000	660000	495000
			330000
Direct Labor(25% on sales value)[10/15 × 375000]	375000	500000	375000
			250000
Variable overhead(₹10 per units)	150000	200000	250000
Fixed overheads	350000	350000	350000
	50000	50000	50000
Sales drive	-	60000	-
Depreciation on new equipment	-	-	100000
Total Costs	1420000	1820000	2250000
Profit	80000	180000	150000

It will be advisable for the company not to accept the offer instead to sell the 20,000 units @ ₹100 per unit, since the former yields a lower profit.

2014 - Dec [8] (a), (b), (d), (e)

(a) Different Pricing Strategies:

Pricing a product requires a lot of considerations according to different situations. In effect pricing is a very complex game played with regard to (i) pricing policy laid down by the organization, pricing objectives, and (ii) external constraints. Various strategies for pricing are prevalent:

(1) **Different pricing:** Based on quantities purchased, terms of payment, status of the buyers, bargaining power and location of the buyers. This policy is resorted only when the number of manufacturers and direct customers are limited and the demand and supply position is more or less balanced. It should be seen that a customer buying at a cheaper rate does no compete with the manufacturer.

(2) **Skimming price:** While introducing a new product, its price may be fixed at a high level. Large promotional expenses are needed at this stage. At a later stage with more competitors coming into the market, both the price and the promotional expenses may be reduced. Skimming pricing is possible for a new product where there are a few producers, demand is inelastic and/or the product appeals to the rich and affluent customers.

(3) **Penetration pricing:** Penetration price is a low price that appeals to the mass as quickly as possible. Sometimes for a new product the company may fix a low price only to increase it when it has captured the market. For the goods requiring heavy initial investment, the low price fixed by the introducing company will work as a deterrent to otherwise likely competitor producers. The product should have high price elasticity of demand and the volume of production should be high.

(4) **Target costing:** To enter a new market, a manufacturer has to consider the prices of the competitors' products. The estimated long run cost of the product which will enable a company to enter or to remain in the market competing with its competitors successfully is called target cost. Japanese producers of consumer goods often use target cost in their pricing strategies.

(5) Cost plus price is used when long-term cost cannot be predicted accurately e.g. in a government contract for bulk purchases.

(6) Marginal cost pricing is resorted to for entering a new market e.g. in dumping goods to a foreign market where the company wants to gain a foothold. It is a short-run measure in as much as no company can continue for long with prices which will not recover fixed overheads.

(b) Areas of Cost Reduction and Techniques to be adopted for Cost Reductions:

Areas of Cost Reduction:

(1) Reduce payroll costs by outsourcing activities.
(2) Redesign processes to eliminate duplication of effort and time.
(3) Make more use of technology and automation.
(4) Consolidate purchasing with fewer suppliers to get better discounts and build strong relationships.
(5) Agree to long-term supply contracts or annual purchase volumes in return for lower prices and negotiate longer payment terms.
(6) Trim back your product range and increase production runs.
(7) Get the most out of your premises by sub-letting spare space.
(8) Cut the cost of communications and travel by using email, internet calls (such as Skype) or teleconferencing whenever possible.

Cost Reduction Techniques

(1) **Standardization:** According to Kimball and Kimball , "By standardization in the manufacturing scene meant the reduction of any one line to fixed types, sizes and characteristics." In simple words standardization is the process of formulating and applying rules for an orderly approach to specific activity

(2) **Codification:** It is a process of representing each item by a number, the digit of which indicates the group, the type and the dimension of item.

(3) **Value Analysis:** Value analysis is defined as an organized creative approach which has, as its objective, the efficient identification of unnecessary cost.

(d) Kaizen Costing: KAIZEN costing is a cost-reduction system that is applied to a product in production. It comes from the combination of the Japanese characters 'kai' and 'zen' which mean 'change' and 'good,' respectively. The word 'Kaizen' translates to 'continuous improvement' or 'change for the better' and aims to improve productivity by making gradual changes to the entire manufacturing process. Some of the cost-reduction strategies employed involve producing cheaper re-designs, eliminating waste and reducing process costs. Ensuring quality control, using more efficient equipment, utilizing new technological advances and standardizing work are additional elements. To understand Kaizen costing, one first needs to grasp standard costing methodology. The typical standard costing approach works by designing a product first and computing costs by taking in to account material, labor and overhead. The resulting figure is set as the product cost. The standard cost is set and revised on a yearly basis. Cost deviation analysis involves checking to see whether the projected cost estimates tally with the final figures. Manufacturing procedures are assumed to be static.

Kaizen costing is based around improving the manufacturing process on a continual basis, with changes being implemented throughout the year. Cost-reduction targets are set on a monthly basis. The goal here is to reduce the difference between profit estimates and target profits. The cost deviation analysis done in Kaizen costing examines the difference between the target Kaizen costs and the actual cost reduction achieved. The basic idea here is to make tiny incremental cost reductions on a continual basis in a product's life cycle.

(e) Strategies for combating "hostile take-over"

A target company which faces the threat of a hostile take-over can adopt the following strategies:

(i) Poison pill tactics
(ii) Green mail tactics
(iii) White knight tactics
(iv) Golden parachute tactics
(v) Divestiture tactics
(vi) Crown jewel tactics and
(vii) Legal tactics.

Poison pill tactics: This strategy aims at initiating action against the predator destroying the attractiveness of the firm. The following are some methods of doing this:

1. The acquiring company may issue substantial amount of convertible debentures to its existing shareholders.
2. The target firm may either sell off or mortgage or lease some of its precious assets.
3. The target firm may dispose of its liquidity by acquiring some asset.
4. The target company may grant its employees stock options that immediately vests if the company is taken over.

Green mail tactics: The target firm can purchase its own stocks at a premium to avert a take overbid. The incentive is offered by the management of the target company to the potential bidder for not pursuing the takeover bid.

White knight tactics: The target company's management may seek out a friendlier potential acquiring company, who could offer a higher offer price, which would eventually drive away the original bidder. The purpose of white Knight Strategy 'is to seek to find a bidder. The objective is to make the take-over exercise as much unviable and unprofitable as possible for the original bidder.

Golden parachute tactics: This is adopted by the target company by offering hefty compensations to its managers if they manage to get ousted due to takeover. This is pursued to reduce their resistance to takeover.

Divestiture tactics: The target company arranges to divest or spin off some of its businesses in the form of an independent subsidiary company, thus reducing the attractiveness of the existing business to the predator.

Crown jewel tactics: In this, the target company arranges to sell of its crown jewel, namely highly profitable part of the business or ones which the market values better in order to dissuade the predator.

Legal tactics: A target firm can forestall the possible takeover bid through legal mode. It takes the form of legal strategy' for guarding against hostile take-over. In this case, it is possible for the target firm to move a court of law for obtaining injunction against the offer.

Chapter - 2 Budgetary Control and Standard Costing in Profit Planning

2014 - Dec [8] (c)

Need for Lean Accounting:

Lean Accounting provides accurate, timely and understandable information that can be used by managers, sales people, operations leaders, accountants, lean improvement teams and other policy makers. The information gives clear insight into the company's performance: both operational and financial. It measures the right things for a company that wants to drive forward with lean transformation.

There are positive and negative reasons for using Lean Accounting. The positive reasons include the issues addressed in the "Vision for Lean Accounting" shown above. Lean Accounting provides accurate, timely and understandable information that can be used by managers, sales people, operations leaders, accountants, lean improvement teams and others. The information gives clear in sight into the company's performance; both operational and financial. The Lean accounting reporting motivates people in the organization to move lean improvement forward. It is often stated that-what you measure is what will be improved. Lean accounting measures the right things for a company that wants to drive forward with lean transformation.

Lean Accounting is also itself lean. The information, reports and measurements can be provided quickly and easily. It does not require the complex systems and wasteful transactions that are usually used by manufacturing Companies. The simplicity of lean Accounting frees up the time of the financial people and the operational people so that they can become more actively involved in moving the Company forward towards its strategic goals. The role of the financial professional moves away from book keeper and reporter and towards strategic partnering with the Company leaders.

At a deeper level Lean accounting matches the cultural goals of a lean organization. The simple and timely information empowers people at all levels of the organization. The financial and performance measurement information is organized around value streams and thereby honors the lean principle of value stream management. The emphasis on Customer Value is also derived from the principles of lean thinking. The way a Company Accounts and measures its business is deeply rooted in the culture of organization. Lean Accounting has an important role to play in developing a lean culture within an organization.

Chapter - 4 Cost of Quality & TQM

2014 - Dec [7] (a)

Stages	Description
1.	Identification of customers / customer groups
2.	Identifying customer expectations
3.	Identifying customer decision-making requirements and product utilities
4.	Identifying perceived problems in decision-making process and product utilities
5.	Comparison with other Firms and benchmarking
6.	Customer Feedback
7.	Identification of improvement opportunities
8.	Quality Improvement Process through – (a) Determination of new strategies, (b) Elimination of deficiencies, and (c) Identifying solutions.

1. **Stage 1: Identification of customers / customer groups:** Through a team approach (a) Technique called Multi-Voting the firm should identify major customer groups. This helps in generating priorities in the identification of customers and critical issues in the provision of decision – support information.

2. **Stage 2: Identifying customer expectations:** Once the major customer groups are identified, their expectations are listed. The question to be answered is – What does the customer expect from the Firm?
3. **Stage 3: Identifying customer decision-making requirements and product utilities:** By identifying the need to stay close to the customers and follow their suggestions, a decision– support system can be developed, incorporating both financial and non-financial information, which seeks to satisfy used requirements. Hence, the firm finds out the answer to – What are the customer‘s decision-making requirements and product utilities? The answer is sought by listing out managerial perceptions and not by actual interaction with the customers.
4. **Stage 4: Identifying perceived problems in decision-making process and product utilities:** Using participative processes such as brainstorming and multi-voting, the firm seeks to list out its perception of problem areas and shortcomings in meeting customer requirements. This will list out areas of weakness where the greatest impact could be achieved through the implementation of improvements. The firm identifies the answer to the question – What problem areas do we perceive in the decision-making process?
5. **Stage 5: Comparison with other Firms and Benchmarking:** Detailed and systematic internal deliberations allow the Firm to develop a clear idea of their own strengths and weaknesses and of the areas of most significant deficiency. Benchmarking exercise allows the Firm to see how other Companies are coping with similar problems and opportunities.
6. **Stage 6: Customer Feedback:** Stages 1 to 5 provide a information base developed without reference to the customer. This is rectified at Stage 6 with a survey of representative customers, which embraces their views on perceived problem areas. Interaction with the customers and obtaining their views helps the Firm in correcting its own perceptions and refining its process.
7. **Stage 7 & 8:** Identification of improvement opportunities and implementation of Quality.

   Improvement Process: The outcomes of the customer survey, benchmarking and internal analysis, provides the inputs for stages 7 and 8. i.e., the identification of improvement opportunities and the implementation of a formal improvement process. This is done through a six-step process called PRAISE, for short.

Chapter - 6 Linear Programming

2014 - Dec [6] (b)

Let x1 be the no. of units of A

Let x2 be the no. of units of B

Objective function: Min. $Z = 4x_1 + 6x_2$

Subject to Constraints:

$x_1+2x_2 \geq 80$

$3x_1+x_2 \geq 75$

and $x_1, x_2 \geq 0$

Chapter - 7 Learning Curve
2014 - Dec [7] (b)
(i) Computation of selling price of First Order for 40 units

a.	Total Costs (As given)	₹ 5,50,000
b.	Number of units	40 units
c.	Average cost per unit	₹ 13,750
d.	Since profit is 12% on price, it is 12/28 on cost	₹ 1,875
e.	Price Quoted (Cost + Profit)	₹ 15,625

(ii) Computation of Time required for 120 units

No. of Units	Time Required per unit	Total Time Required	Cumulative Time
40	8000hrs/ 40 units = 200 hours	(given) 8000 hours	8000 hours
80	200×90% = 180 hours	80 units ×180 hours per unit	14400 hours
160	180×90% = 162 hours	160 units × 162 hours per unit	25920 hours

Time required for 120 units=Cumulative Time required for 162 units – Time required for first 40 units = 25,920-8,000 =17,920 hours

Cost Sheet for order of 120 units:

Particulars	Computation	₹
Direct Material	(₹ 2,00,000/40)×120 Units	6,00,000
Direct Labour	17,920 hours × ₹20 per hour	3,58,400
Variable Overheads	17,920 hours × ₹10 per hour	1,79,200
Special Tools (Re-usable)	Hence, Relevant Cost is Nil	Nil
Fixed Overheads	Idle Capacity-Not Relevant	Nil
Total Cost		11,37,600
Cost per unit	₹ 11,37,600/120	9,480
Price offered		11,000
Hence Profit per unit		1,520
Total profit from 120 units	₹ 1,520×120 units	1,82,400

Decision: The order should be accepted.

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