

MODEL TEST PAPER
Self-Paced Online Modules
SET-B: Strategic Cost & Performance Management

Time Allowed: 3 Hours

Maximum Marks: 100

All Questions are compulsory. Each questions are of 2 Marks Each.

Section -A

Case Scenario A1

Art Décor is a marble sculpture making company based out of Jaipur, Rajasthan. It has been making miniature figurines (small statues) for the past many years. It now plans to foray into making larger sizes statues that can be displayed in gardens, resorts or large corporate offices. As a trial it has asked its main designer Raj to come up with an appropriate design model that would appeal to such customers. There is already a competitive market for such larger size statues. However, the management of Art Décor has a skilled artist like Raj who can come up with attractive designs for customers. Within the month, Raj has come up with the appropriate design. Jay is the product manager who likes the design but wants to price it competitively in the market. The costing for 200 statues is as below:

Cost	Amount (₹)
Design cost	5,00,000
Direct materials	20,00,000
Direct manufacturing labour	25,00,000
Variable manufacturing overhead	20,00,000
Fixed manufacturing overhead	5,00,000
Marketing	10,00,000

MCQ 1

The target profit required is 25% of revenue. If the sale price per statue is ₹45,000 what is the target cost per statue?

Options

- (a) ₹33,750 per statue
- (b) ₹36,000 per statue
- (c) ₹42,000 per statue
- (d) ₹56,250 per statue

MCQ 2

What is the cost estimate per unit as per the cost information given above?

Options

- (a) ₹45,000 per statue
- (b) ₹42,500 per statue
- (c) ₹30,250 per statue
- (d) ₹43,000 per statue

MCQ 3

During the course of discussions, Jay the product manager found that the designer Raj plans to use high quality marble for these statues. Jay suggests that he use a much lower quality marble material for the statues. This would reduce the material cost by 60%. Skilled labour hours required will also be reduced resulting in direct manufacturing labour to reduce by 50%. Accordingly, what would the revised estimate cost per unit be if value engineering is applied?

Options

- (a) ₹45,000 per statue
- (b) ₹42,500 per statue
- (c) ₹30,250 per statue
- (d) ₹43,000 per statue

MCQ 4

Raj the designer does not agree with Jay's proposition given in (3) above. He feels that inferior quality material would affect the durability of the statue and hence would affect the demand for it in the long run. Instead of value engineering, he feels that 10% increased spending in marketing can increase the selling price per statue to ₹50,000 per statue. The target profit required is 25% of revenue. Given this scenario, what is the target cost per statue?

Options

- (a) ₹33,750 per statue
- (b) ₹37,500 per statue
- (c) ₹35,000 per statue
- (d) ₹36,250 per statue

MCQ 5

Given the situation in (4) what would be revised estimated cost per statue after increasing the spend on marketing?

Options

- (a) ₹45,000 per statue
- (b) ₹42,500 per statue
- (c) ₹30,250 per statue
- (d) ₹43,000 per statue

MCQ 6

What is the estimate profit earned per statue as per (3) (adopting value engineering) and (4) (increasing marketing spend)?

Options	Profit per statue with value engineering as per (3)	Profit per statue after increased marketing spend as per (4)
(a)	₹14,750	₹7,000

(b)	₹2,500	₹7,000
(c)	₹11,250	₹12,500

Case Scenario A2

Fix It is a company that provides home services to clients within few urban cities like Mumbai, Delhi and Kolkata. These services include (1) home repairs like plumbing, electrical etc. and (2) appliance repair services.

The company receives enquiries at its call centre for the specific service required. The call centre assistants log the enquiry and provide a quote for the specific service. If acceptable to the customer, the enquiry is then converted into a service request (sales) and is attended to by professionals employed by the company for these various services. A request can have multiple requirements included, for example a single request can include both plumbing and electrical work. The company has a huge turnover due to the high demand for such services in urban areas. The company has been in operation for the last 2 years. The management wishes to assess current performance in order to set targets and benchmarks for future use. They wish to concentrate on both financial and non-financial information. The Building Block model suggested by Fitzgerald and Moon has been identified as the framework that will be used to prepare a performance evaluation report.

Given below are certain financial and non-financial information for the current year.

<i>Enquiries received from customers</i>	<i>Current year numbers</i>
<i>(i) From existing customers</i>	<i>12,000</i>
<i>(ii) From new customers</i>	<i>8,000</i>
<i>Number of services requested lodged from these enquiries</i>	
<i>(i) From existing customers</i>	<i>10,000</i>
<i>(ii) From new customers</i>	<i>7,500</i>
<i>(iii) Total clients serviced last year (both existing and new)</i>	<i>11,000</i>
<i>Volume of activity</i>	
<i>(i) Home repairs</i>	<i>14,000</i>
<i>(ii) Appliance repair</i>	<i>5,000</i>
<i>Number of Employees</i>	
<i>(i) Home repairs</i>	<i>200</i>
<i>(ii) Appliance repair</i>	<i>50</i>
<i>Complaints</i>	
<i>Number of complaints received (Last year 1,600 complaints were received)</i>	<i>2,000</i>
<i>Number of complaints resolved (Last year 1,520 complaints were resolved)</i>	<i>1,900</i>
<i>Gross profit on annual sales</i>	<i>30%</i>

MCQ 1

Which of the following is true regarding conversion rate of inquiries into service requests?

- Conversion rate of existing customers is more than that of new customers
- Conversion rate of existing customers is less than that of new customers

- iii. Conversion rate is calculated as $[\text{service requests lodged} / \text{enquiries received}] \times 100$
- iv. Conversion rate is calculated as $[\text{enquiries received} / \text{service requests lodged}] \times 100$

Options

- (a) (i) and (iv)
- (b) (ii) and (iii)
- (c) (i) and (iii)
- (d) (ii) and (iv)

MCQ 2

To which dimension do conversion rate of inquiries into service requests and retention of existing customers fall into?

Options

- (a) Flexibility
- (b) Resource utilization
- (c) Quality control
- (d) Competitiveness

MCQ 3

Which of the following is true regarding complaints received?

- i. Complaints received is a measure of quality of service dimension
- ii. Complaints received is a measure of flexibility dimension
- iii. The complaints received have increased by 25% over last year
- iv. Complaints received can be a reason for the lower retention of existing customers this year

Options

- (a) i and iii
- (b) i, iii and iv
- (c) ii, iii and iv
- (d) iii and iv

MCQ 4

Which of the following is true regarding complaints resolved?

- i. Complaints resolved is a measure of quality of service dimension
- ii. Complaints resolved is a measure of flexibility dimension
- iii. The ratio of complaints resolved to complaints received has remained the same as last year
- iv. Inability to resolve complaints can affect competitiveness of business

Options

- (a) i, iii and iv
- (b) i and iv
- (c) iii and iv
- (d) ii, iii and iv

MCQ 5

Which of the following is true about average service performed by an employee?

- i. Average service performed by an employee is a measure of resource utilization
- ii. Average service performed by an employee is a measure of flexibility
- iii. Average service performed for home services is more than that for appliance repair
- iv. Average service performed for home services is less than that for appliance repair

Options

- (a) i and iv
- (b) i and iii
- (c) ii and iv
- (d) ii and iii

MCQ 6

Which dimension does gross profit on annual sales indicate?

Options

- (a) Competitiveness
- (b) Financial
- (c) Resource utilization
- (d) Quality of service

Case Scenario A3

JPY Motors Corp. is a race car manufacturer based in Iwaki (city name). The company manufactures cars primarily for professional car racers who participate in championships held all across the world. Race cars need high grade fuel that is specially used in high performance engines. The company has many engineers from allied fields who constantly research on ways to improve performance. They have recently proposed a change to the fuel composition that will make a marked improvement to the performance of the engine. This will have a direct and immediate impact on the training and career performance of the customers of JPY Ltd, who are all professional car racers.

Improved engine performance has a direct bearing on the careers of professional car racers. Improved engine performance will enable JPY Ltd to improve its market share in this niche market. This will have substantial impact on the financials of the company. Changing the fuel composition also requires the company to get approvals from the Government for meeting emission standards as well as safety standards for the car. Many environmental groups have hailed this change as the new fuel composition is made from more sustainable source of fuel, moving away from fossil fuels.

The adoption of new fuel composition will require a change in the engine design and components. Hence, material requirement for the new model will require changes to the procurement function of the supply chain. Currently, suppliers for key components like engine and its parts are based in the vicinity of JPY Motors's factory in Iwaki. However, the proposed changes will require the company to purchase the key engine component from suppliers based in Yokohama.

While manufacturing process undergoes a change due to change in engine design, there will be no significant variation in the assembly line operations for the new model. Most of the employees in the assembly line are hired on contractual basis and do not have any union to represent them.

The above consideration to change the fuel composition is being viewed a decision that will affect the company's strategic position. Before making their decision public, the senior management wants to first assess the power and interest of various stakeholders who can influence this decision. As a management accountant, you need to assist the senior management to understand the type of information to be given to each stakeholder depending on their power to influence and their interest in the objective to change fuel composition.

MCQ 1

Which of the following stakeholders are in the high interest and high-power group?

Options

- (a) Customers and Government regulators
- (b) Customers and Board of Directors
- (c) Government Regulators and Current Suppliers of key components
- (d) Suppliers of key components and Employees at assembly line operations

MCQ 2

Which of the following stakeholders are in the high interest and low power group?

Options

- (a) Current suppliers of key components and Environment activist groups
- (b) Government regulators and Environment activist groups
- (c) Employees at the assembly line and Current suppliers of key components
- (d) Customers and Environment activist groups

MCQ 3

Which of the following stakeholders are in the high power and low interest group?

Options

- (a) Employees at the assembly line
- (b) Customers
- (c) Current suppliers of key components
- (d) Government regulators

MCQ 4

Which of the following stakeholders are in the low power and low interest group?

Options

- (a) Employees at the assembly line
- (b) Customers
- (c) Current suppliers of key components
- (d) Government regulators

MCQ 5

With which stakeholders should the company keep informed while implementing the change?

Options

- (a) High power and low interest group, because they can be impacted by the decision
- (b) Low power and high interest group, because they can join forces with a more powerful stakeholder to influence the decision
- (c) High power and high interest group, because cannot influence the decision
- (d) Low power and low interest group, because it is very relevant decision for them

MCQ 6

With which stakeholder should the company ensure that they are satisfied while implementing the change?

Options

- (a) High power and low interest group
- (b) Low power and high interest group
- (c) High power and high interest group
- (d) Low power and low interest group

Case Scenario A4

Speed Auto-mobile Limited (SAL) is recently formed Indian automobile company with aspiration to be global brand in upcoming decade. It enters into strategic alliance with enterprises based in Japan, Germany, and France for R&D support apart from sharing of latest technologies. SAL striving towards effectiveness and efficiency by better correlate system, strategy, staff, skill etc.

Mr. Gupta, the Management Accountant of SAL had experience of using 7-S framework in his previous job and willing to apply the same framework at SAL to support the drive for efficiency and effectiveness. He made presentation to C-suite. CEO is convinced with utility that 7-S framework is capable to produce. But she and some of officers have queries regarding the application of Mckinsey's 7-S; moreover, sceptic about; how SAL going to get maximum out of 7-S?

Mr. Gupta explained that 7-S are divided into two sets i.e., Soft and Hard elements based upon ease in their identification and degree of influence that management can exercise. He also explained the successful cases of US companies which used 7-S in drive towards efficiency and effectiveness.

Since concept is new for many of C-suite members, hence, MD-cum-CEO Ms. Catz asked Mr. Gupta to list out the 7-S with classification into Soft and Hard S elements and also stating reason and implications thereof.

Chief Strategic Officer Ms. Karen argues that business environment of US and India is not same, hence not wise to opt and implement 7-S framework applied by US firms. She asked Mr. Gupta to explain the steps that are involved in implementation of 7-S framework, so that a caution list can be prepared if it is decided to go ahead. She further raises the issue of change resistance.

HR head Mr. Ajai Singh asked, whether HR practices also covered by any one out of 7-S, or combination thereof. He took reference of role a leader play, stories and belief prevailing among employees, etc.

Chief marketing officer Mr. Andrew extended the point raised by Mr. Ajai and ask whether 7-S has bearing on generic strategies adopted by business. He took reference of various automobile

companies to understand how these companies with different generic strategies get advantage from 7-S framework.

Then, Chief Operating Officer Ms. Anjum Aggarwal whose KRA includes designing and implementation of SOPs willing to know whether adjustment can be made to all the S elements or only in some of them.

Some of question posed by C-suite are specified ahead, you are required to select most appropriate option for each of MCQ.

Students may take note, the C-suite refers to a company's top management positions, where the "C" stands for "chief." Various chief officers (e.g., CEO, CIO, CFO, etc.) are the occupants of the C-suite.

MCQ 1

In context to question posed by Ms. Anjum, which of the following statement are correct –

- i. If one area of the 7-S framework needs adjusting or tweaking for business success, the other S elements are presumed to be stable or remain constant i.e., ceteris paribus
- ii. If one area of the 7-S framework needs adjusting or tweaking for business success, the other S elements are need adjusting too
- iii. Hard S elements are easily identified and influenced by management comparing to Soft S
- iv. Soft S elements are easily identified and influenced by management comparing to Hard S

Options

- (a) Only statement i and iii are correct
- (b) Only statements ii and iii are correct
- (c) Only statement i and iv are correct
- (d) Only statements ii and iv are correct

MCQ 2

In context of requirement to list out Hard and Soft S elements by Ms. Catz, the 'hard' elements of the 7-S framework include all of the following except which –

Options

- (a) Strategy
- (b) Structure
- (c) Systems
- (d) Style

MCQ 3

The McKinsey 7-S Framework is useful in which of these situations?

- i. Improving overall business performance
- ii. Understanding worker termination process
- iii. Examining effects of future change
- iv. Aligning departments during a merger

Options

- (a) i and iii only

- (b) i and iv only
- (c) i, ii and iii only
- (d) i, iii and iv only

MCQ 4

In context of requirement to list out Hard and Soft S elements by Ms. Catz, the 'soft' elements of the 7-S framework include all of the following except –

Options

- (a) Skills
- (b) Shared values
- (c) Systems
- (d) Style

MCQ 5

In context of relation among the elements of 7-S framework and with the strategy which of following are incorrect:

- i. Strategy is one among the 7 elements of 7S framework that is core to all remaining elements of 7S
- ii. All the element of 7S framework have equal importance
- iii. Hard S elements have more important than Soft S elements

Options

- (a) i and ii
- (b) ii and iii
- (c) i and iii
- (d) None of the i, ii and iii

MCQ 6

Regarding concern highlighted by Ms. Karen in context to implementation of 7-S framework and change resistance, which of following statement are incorrect?

- i. Change agents can effectively implement the McKinsey 7-S model using a top-bottom approach
- ii. Organisation should identify internal change agents or hire change consultants best suited to implement your changes.

Options

- (a) Statement i only
- (b) Statement ii only
- (c) Both of the statement i and ii
- (d) None of the statement i and ii

Section- B

Case Scenario B1

A company has a division A producing three products called X, Y, Z. Each product can be sold in the open market in the following manner.

Maximum external sales are X 800 units, Y 500 units, Z 300 units.

Particulars	X	Y	Z
Selling price per unit (`)	96	92	80
Variable Cost of production in Division A (`)	33	24	28
Labour Hours required per unit in Division A	6	8	4

Product Y can be transferred to Division B, but the maximum quantity that might be required for transfer is 300 units of Y.

Division B could buy similar product in the open market at a price of ` 45 per unit.

The number of hours needed for external sales are 10,000.

MCQ 1

When Division A has capacity of 8,000 hours, which of the following statements are true?

- There is a shortfall 4,400 hours to meet both external production and request of 300 units of Y from Division B
- The constraining factor is labour hours, which needs to be utilized optimally
- Contribution per hour of X is `10.50, Y is `8.50 and Z is `13
- Due to limited capacity Division A will incur an opportunity cost due to lost sales if it caters to the request of Division B

Options

- i and ii
- ii, iii and iv
- i, iii and iv
- all of the above

MCQ 2

When Division A has capacity of 8,000 hours, what will be optimum mix of production for external sales?

Options

- X - 800 units, Y - 500 units and Z - 300 units
- X - 800 units, Y - 600 units and Z - 300 units
- X - 800 units, Y - 250 units and Z - 300 units
- X - 733 units, Y - 500 units and Z - 300 units

MCQ 3

Given that Division A has a capacity of 8,000 hours. If Division A accepts to produce 300 units of Y for Division B, what will be the contribution lost from reduced sales?

Options

- Contribution lost from reduced sales of X - `8,400 and Z - `3,900

- (b) Contribution lost from reduced sales of Y - `17,000 and Z - `3,900
- (c) Contribution lost from reduced sales of Y - `17,000 and X - `8,400
- (d) Contribution lost from reduced sales of Y - `17,000 and X - `4,200

MCQ 4

Given that Division A has a capacity of 8,000 hours. If Division A accepts to produce 300 units of Y for Division B, what should be the transfer price that should be charged to Division B?

- (a) `24 per unit
- (b) `45 per unit
- (c) `94.66..... per unit
- (d) `92 per unit

Case Scenario B2

PowerOn manufactures batteries that power medical devices like medical imaging systems, defibrillators, ventilators and monitoring devices. PowerOn has customers who are medical equipment manufacturers who use these while making medical devices and machines. Bataid is the latest model of battery that PowerOn has developed. It is safe, stable and longer lasting. These are very important attributes since the performance of medical devices can get affected by them. PowerOn wishes to arrive at a price for Bataid batteries. The market has many similar batteries available. However, Bataid is of a much higher quality as compared with the rest. The nearest comparable battery is Bat 1.

Particulars	Bataid	Bat 1
Operating cost per hour	₹2 per hour	₹1 per hour
Probability of battery failing	1%	11%
Price of a battery per unit	?	₹20,000

Due to the critical nature of the medical devices in which it is used, the cost of a battery failing to the buyer has been arrived as ₹1,00,000. Both batteries Bataid and Bat 1 can be used for an average of 8,000 hours.

Note- True economic value/ Objective value to be determined in this scenario from the point of view of PowerOn, the battery manufacturer.

MCQ 1

Calculate the difference in operating cost (in `) per battery.

Options

- (a) 2,000
- (b) 4,000
- (c) 6,000

(d) 8,000

MCQ 2

Calculate the savings (in `) to buyer due to more stable performance of battery.

Options

- (a) 4,000
- (b) 6,000
- (c) 8,000
- (d) 10,000

MCQ 3

Calculate the value differential (in `) of using Bataid.

Options

- (a) 1,000
- (b) 2,000
- (c) 4,000
- (d) 6,000

MCQ 4

Calculate the probable price (in `) PowerOn can charge the medical equipment manufacturer based on the True Economic Value method.

Options

- (a) 38,000
- (b) 18,000
- (c) 23,000
- (d) 22,000

Case Scenario B3

A1 is an organization that does trading of milk and milk products and operates within a large district in Uttar Pradesh, India. Milk producers (dairy farmers) sell quality milk and milk products which is then sent to retailers to be sold to customers. Each day the milk producers get the milk to the collection centre in the village. A sample of milk is drawn from individual lots to test the milk for quality. Once the quality check is passed, measurement of milk is done carefully, and the milk collected is recorded in the name of the individual milk producer. The milk is then brought to the main collection centre where further quality check is done. Once the quality test is passed, the milk is then packaged and dispatched in specially designed vans with coolers to retailers spread across various locations within the district. Consumers get their daily milk supplies from the retailers.

MCQ 1

From the viewpoint of A1, procurement of good quality milk from dairy farmers best describes which of the following situations?

Options

- (a) Value chain management
- (b) Upstream supply chain management

- (c) Downstream supply chain management
- (d) Triple Bottom Line

MCQ 2

From the viewpoint of A1, ensuring distribution of milk packets to retailers well within the expiry date (milk being a perishable commodity) best describes which of the following situations?

Options

- (a) Value chain management
- (b) Upstream supply chain management
- (c) Downstream supply chain management
- (d) Triple Bottom Line

MCQ 3

In the recent years, A1 has been battling complaints about decreasing quality of products. Hence it is thinking of taking strategic decisions. One among them is to own dairy farms where the livestock are kept, instead of procuring the milk from dairy farmers individually. It is felt that this would standardize the rearing the livestock cattle (breed of cattle, their feed, milk collection procedure etc). This will also give better control over milk production and therefore improve quality of milk output. Which scenario best describes this scenario?

Options

- (a) Value chain management
- (b) Upstream supply chain management
- (c) Downstream supply chain management
- (d) Triple Bottom Line

MCQ 4

The decision enumerated in (iii) above has raised concerns with the dairy farmers who stand to lose their livelihood. A1 has assured them that all the dairy farmers will be given employment within the dairy farms owned by the organization. Moreover, milk production will be based on sustainable methods which will ensure the good health of the livestock cattle as also that of the environment. The customers also benefit by getting farm fresh milk. A happy customer will be a loyal customer, thus ensuring the sustainability of business. A1 aims to develop a framework that will monitor and ensure the well being of the livestock cattle and its dairy farmers, ensure sustainability practices that ensure that production is done in an eco-friendly manner. Which scenario best describes this scenario?

Options

- (a) Value chain management
- (b) Upstream supply chain management
- (c) Downstream supply chain management
- (d) Triple Bottom Line

Case Scenario B4

Nova Automobile Limited (NAL) is an Indian bike manufacturer that specializes in environmentally friendly 'hybrid' bikes. Its bikes are powered by both electric batteries and CNG. Despite being in its initial years, NAL has already earned a good reputation for the quality and dependability of its bikes.

NAL has made significant investments in the development of hybrid engines and is now looking to expand its market reach to nearby countries. The majority of shares in NAL are held by two venture capital firms that are supporting the company's growth plans.....continue.....

MCQ 1

Which of the following option allow the Nova to expand its market reach without sparing any of its resources, rather its will generating cash inflows –

Options

- (a) Joint venture
- (b) Strategic Alliance
- (c) Setting-up plant in those countries
- (d) Licensing

MCQ 2

Since brand is big resource to attain and sustain competitive advantage, hence Nova don't want to compromise with quality that may harm the repute which it earns; therefore, intended to keep control over quality through active participation while preserving its independence in addition to least possible resource application, then which form is best for Nova.

Options

- (a) Joint venture
- (b) Strategic Alliance
- (c) Setting-up plant in other countries
- (d) Licensing

MCQ 3

NAL's board of directors is considering a joint venture with Country B's Anumaj Automobiles Limited (AAL), because Country B, which is a neighbouring country to India has a rapidly growing market for environmentally friendly bikes. Though AAL does not currently produce hybrid vehicles, but it does have excess capacity in its factory.

AAL is also interested in proposal because their sale during proceeding three years has been declining due to the safety issues in their bikes. Even couple of blast issues report in their bike in recent past, engine caught fire in both the cases; resultantly petrol tank burst results in blast.

Managing performance of Joint-venture is difficult due to which of the following limitations.

- i. Difference in Culture and management styles in both the companies (JV partners)
- ii. Difference in financial reporting framework in both the countries
- iii. Difference in attitude towards risk and quality in both the companies (JV partners)

Options

- (a) i and ii only
- (b) i and iii only
- (c) ii and iii only
- (d) All i, ii and iii

MCQ 4

Which of the following primary activity shall be substantial source of enlarged value for proposed JV of Nova and AAL.

Options

- (a) Inbound logistics
- (b) Outbound logistics
- (c) Marketing and sales
- (d) After sale services

Section- C

Case Scenario C1

Following are the scores of six firms as per Argenti's A score model.

Firm	Defects	Mistake	Symptoms of trouble
i	10	0	4
ii	2	15	0
iii	10	15	0
iv	15	0	0
v	0	30	0

MCQ 1

You are required to identify healthy firms –

Options

- (a) i and ii only
- (b) i and iii only
- (c) ii and iii only
- (d) All i, ii and iii

MCQ 2

You are required to identify firms at Risk –

Options

- (a) ii and iii only
- (b) i and iii only
- (c) i and ii only
- (d) All i, iv and v

MCQ 3

Argenti's A score model has following dimensions or group –

- i. Defects
- ii. Mistakes
- iii. Warning

iv. symptoms of failure

Options

- (a) i, ii and iii
- (b) ii, iii and iv
- (c) i, ii and iv
- (d) All i, ii, iii and iv

Case Scenario C2

Nutty Bites produces many edible snacks that are very popular especially among children. Peanuts, Peanut oil are essential ingredients in many of its products. They are currently facing this ethical issue: Medical studies have indicated peanut allergic reactions are on the rise. The prevalence is more profound among children. Reactions can range from hives around the mouth to potentially life-threatening reactions when exposed even to the slightest trace of peanuts. There is growing media campaign to force companies like Nutty Bites to make disclosure about the presence of peanut on its package labelling.

Nutty Bites is a mid-size company that has a growing market. Risk to peanut exposure can come not just from the presence of peanuts in its products. Some of its bought-in ingredients (raw material input) are cooked in peanut oil. There are risks of “cross-contamination” amongst products. Let us say, an equipment has been used produce cookies that has peanuts. Next, the equipment is used, without being cleaned, to produce chips that does not have peanuts as an ingredient. Some portion of the peanuts / peanut oil could contaminate that specific batch of chips produced. Since labels of chips would not mention “peanuts” as an ingredient, it poses a potential risk of causing allergic reaction to a customer unaware of this contamination. Management of Nutty Bites has called for a meeting to discuss this issue. “The issue need not be addressed at all. After-all Nutty Bites is doing nothing against the law” is the opinion of many members on the board of the company.

MCQ 1

Would you agree with the popular opinion with the management of Nutty Bites that “The issue need not be addressed at all. After-all Nutty Bites is doing nothing against the law”?

Options

- (a) Yes, the health and safety of consumers cannot be the responsibility of Nutty Bites. Hence, the issue need not be addressed at all.
- (b) No, food safety is a fiduciary duty that Nutty Bites owes to the society. Corporate Social Responsibility (CSR) is the duty an organization has towards a wider community. Hence, Nutty Bites has to take steps to address the problem.
- (c) Yes, Nutty Bites is doing nothing against the law. Hence the issue need not be addressed at all.
- (d) Yes, Nutty Bites need not take any action as there is no lawsuit filed against the company from the customers.

MCQ 2

Which of the following scenarios has a less chance of happening if Nutty Bites does not take any action?

Options

- (a) On consuming the product, if the consumer faces a medical issue that gets traced back to the product manufactured by Nutty Bites, it could result in bad publicity that could damage its brand value
- (b) It can increase the risk of potential legal action for tort or committing a civil wrong
- (c) Operating in an ethical environment can increase employee morale and well being
- (d) Profitability from sale of the products for the current month (short run) will be impacted

MCQ 3

Which is not a non-financial consideration while considering any potential responses to address the health and safety issue?

Options

- (a) Disclosure about the presence of peanut on its package labelling
- (b) Machine sanitization to remove traces of peanut oil
- (c) Increase in selling price of products to recoup the cost of making proposed changes
- (d) Audit of upstream supply chain to get information of which bought in ingredients (raw material input) are cooked in peanut oil.

Case Scenario C3

NEC is a multiple product manufacturer. NEC produces the unit, and all overheads are associated with the delivery of units to its customers:

<i>Particulars</i>	<i>Budget</i>	<i>Actual</i>
<i>Overheads ()</i>	<i>4,000</i>	<i>3,900</i>
<i>Output (units)</i>	<i>2,000</i>	<i>2,100</i>
<i>Customer Deliveries (no.'s)</i>	<i>20</i>	<i>19</i>

MCQ 1

Efficiency Variance by adopting ABC approach in ` are –

Options

- (a) 400 (F)
- (b) 100 (A)
- (c) 100 (F)
- (d) 400 (A)

MCQ 2

Expenditure Variance by adopting ABC approach in ` are –

Options

- (a) 100 (A)
- (b) 400 (F)
- (c) 400 (A)
- (d) 100 (F)

Case Scenario C4

Medicare produces specialized medical equipment used by a number of medical practitioners. It has identified a Critical Success Factor (CSF) "Customers should find zero defects with the medical equipment. Aim for zero defective sale units."

MCQ 1

The Critical Success Factor identified above aims to reduce which of the following Cost of Quality (COQ) to the very minimum:

Options

- (a) Cost of External Failure
- (b) Cost of Internal Failure
- (c) Preventive cost
- (d) Appraisal cost

MCQ 2

Which of the following would be a Key Performance Indicator that directly relates the "zero defective sale" CSF identified above?

Options

- (a) Training hours imparted to manufacturing staff about in quality control for manufacturing process
- (b) Cost of product returns and replacement cost
- (c) Cost of inspection and testing
- (d) Quality certifications from external agencies