Second Edition

Last Updated on 30-June-24

DECODING
CA FINAL- SET B
STRATEGIC COST & PERFORMANCE EVALUATION

Covered ~200 Repeatedly Asked Questions with Video Solutions.

Left with 1-2 days for Exam?? Then You Need Only This !!

Compiled By ***MANMOHAN GUPTA***

Conceptualised By ***VIKALP GUPTA***

Join Telegram Group for Additions and More Such Content of SET A & B (Self-Paced Online Modules)

Telegram Group Link

STUDY PLAN - HOW TO ACE SET B

YOU ARE NOT ALLOWED TO MISS THIS !!

Important things to remember about syllabus and Exams

- Comparing to past syllabus of SCMPE, there are ~20-25% syllabus change, but most importantly there is significant change in way ICAI is testing now in SPOM.

- No need to mugging up keywords, steps, core concept clarity of each concept is highly recommended, at least for the important topics shared on later pages.

- Plan at least 6-7 days for preparation of SET B, you will not require more than it. **You firstly need a holistic overview of syllabus and the topics included.** For this, **devote your 2 days** for any of the below two playlists (at 1.5x) (Riddhi Baghmar Mam Nov 23 Marathon or Atul Sir SCMPE playlist). You will not regret this!!

- Covering these, now the most crucial and rewarding step is to give a fast read to ICAI Study Material, you can't miss it seeing the level of in-depth testing by ICAI in exam. Its Alternate could be Sankalp Sir Book as well which is more or less is Study Mat. For ease, find ICAI study mat compiled version - theory and practical part separately in the resources section.

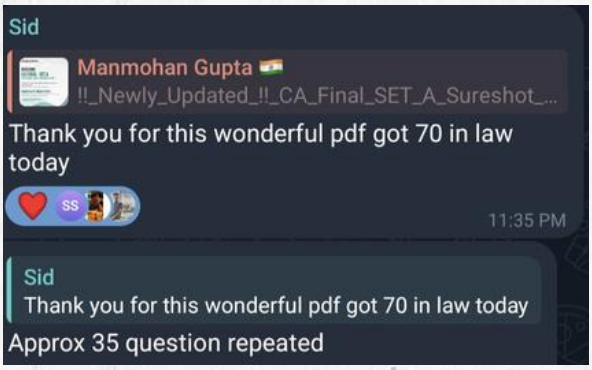
Otherwise,

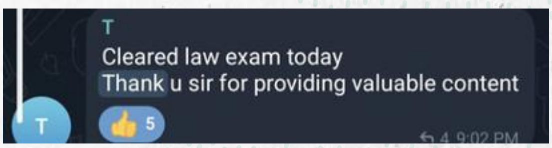
- **If you are short of time, then SCMPE Summary Pdf + Important Topics Playlist from pdf + MCQs Compilation (from this pdf only). (Marathon is also recommended)**

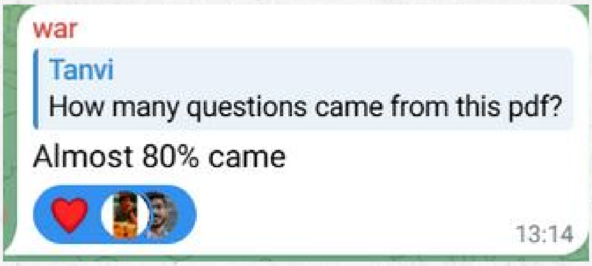
Follow this and you will find yourself in very comfortable position in exam. We are also preparing a 2 day marathon video covering all these things at one place. Subscribe the YouTube Channel for the same.

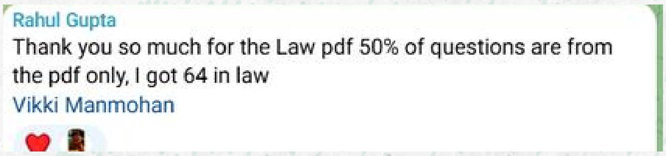
TESTIMONIALS

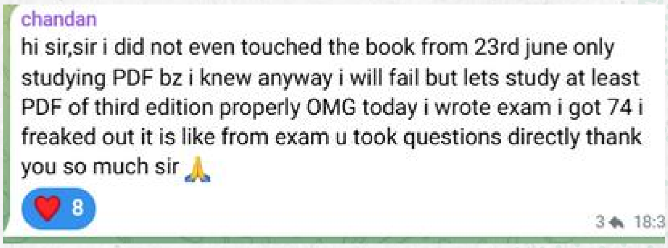
FOR SURESHOT COMPILER - SET A (CORPORATE AND ECONOMIC LAWS)

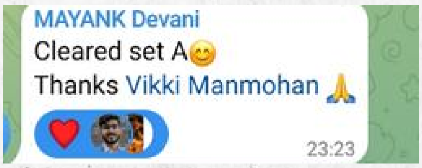


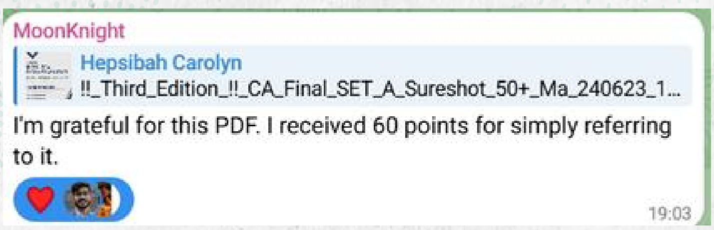












Ace Your Exams, Good Luck !!

After your exams, kindly update the questions in the google form to make this compiler more resourceful. And do share your reviews and suggestions as well.

Google Form Link- Additions, Reviews and Feedback

Thanks
(Vikalp and Manmohan Gupta)

RESOURCES

EVERYTHING YOU WILL NEED AT ONE PLACE

Compiler of SPOM Set - B Resources

1) **Summary notes :** https://t.me/cafinalquerie/357

2) **MCQ book by Sankalp:** https://t.me/cafinalquerie/358

3) **ICAI SM :** https://t.me/cafinalquerie/360

4) **Magic book by Sankalp:** https://t.me/cafinalquerie/363

5) **MCQ book by Manan:** https://t.me/cafinalquerie/365

6) **Youtube Playlist of SCPM:** https://t.me/cafinalquerie/367

7) **Concept notes by Atul Agarwal:** https://t.me/cafinalquerie/368

8) **ICAI Question Solution Link:** https://t.me/cafinalquerie/362

9) **SM Practical TYK Questions and MCQ Compiler:** https://t.me/cafinalquerie/2270

10) **SM Theory Compiler:** https://t.me/cafinalquerie/2278

11) **SCPM Chai with Costing by Sankalp Kanstiya:** https://shorturl.at/mMOYy

12) **SCPM New Concept Bites by Sankalp Kanstiya:** https://shorturl.at/Tf0x2

13) **Guidelines and sample paper by ICAI:** https://t.me/cafinalquerie/361

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Youtube Channel Link

CHAPTERWISE IMPORTANT TOPIC WITH VIDEO SOLUTIONS AND ICAI SM LINKAGE

Chapters	Practical / Theory	Concept Bites	SM Pg.No.
Chapter 1			
Value Chain Analysis (Michael Porter)	Theory	https://youtu.be/xl8v7Hu8dhU?si=HIK9wpF1rgTyZr6e	Page No.- 1.6 & 8.7
Strategic Positioning Analysis	Theory	https://youtu.be/DtzMtB9L97E?si=loPI4-yMcKvEuXI8	Page No.- 1.11
Differentiation & Cost leadership	Theory	https://youtu.be/P9Zg9-KP-hA?si=v-K0TOCD2NalaZ9J	Page No.- 1.20
Porter's 5 forces model (Industry Structure Analysis)	Theory	https://youtu.be/ND8QwcuOQP8?si=BdAv_HXJ5sH5V3AT	Page No.- 1.35
Pillars of Strategic Cost Management	Theory	1) Value Chain Analysis 2) Strategic Positioning Analysis 3) Cost Driver Analysis means the examination, quantification, and explanation of the monetary effects of cost drivers associated with an activity.	-
Information systems, information mgt, information technology	Theory	Information Technology (IT), Information System (IS) and Information Management (IM), all three are inter-connected; but not same. **IM strategy is relationship oriented**. IT strategy is supply-oriented IS strategy is demand-oriented	-
Chapter 2			
Components of Cost of quality	Mix	https://youtu.be/oEvucgr3w_E?si=a9K_YcHx7WNdrxz3	Page No.- 2.4
Six C's of TQM	Theory	https://youtu.be/5VkfwrLkZAw?si=BYRGi0mLf2BnGX64	Page No.- 2.12
Relationship Marketing	Theory	https://youtu.be/O8k4ETH-hfA?si=eJJEKqDYuUY8ME_4	Page No.- 2.22
Service level Agreement	Practical	https://youtu.be/Y1GMVnfUj-s?si=UD2MKd0fSeo5KBuj	Page No.- 2.29
Gain Sharing Arrangement	Theory	https://youtu.be/o10F9aoRfEY?si=kJNyLAh9-P_hF-wM	Page No.- 2.32
Downsizing, outsourcing, offshoring	Theory	**Downsizing decision** mean reduction in workforce due to economic slowdown. **Workforce reduction, work redesign,and systemic strategy are the three most common downsizing strategies**. **Outsourcing** is defined as the transfer of non-core business functions or activities to other external organizations **Offshoring** is the process of moving or relocating an organization's business or functions to another country where the cost of running such a business	-
Other Concepts	Theory	**Push Model:** Manufacture based on forecast + Inventory produce in advance **Pull Model:** Manufacture based on Order + Inventory produce in need basis **Upstream Supply chain:** Relationship with Supplier **Downstream:** Relationship with Customer	-
Chapter 3			
Kaizen Costing & Principles	Theory	https://youtu.be/G1gIJiVz0iU?si=T46_TRbhbJxi2HzF	Page No.- 3.17
5S Lean Innovation	Theory	https://youtu.be/StkC8lS0Ef4?si=o86VYkfEuC0C42DZ	Page No.- 3.22
Overall Equipment Effectiveness (OEE)	Practical	https://youtu.be/2NSXW5PyOco?si=QECFB8Xi94ejSDOi	Page No.- 3.30
Six Sigma	Theory	https://youtu.be/E0Ww4DG68HY?si=qrh-gnsYaMJYv3EK	Page No.- 3.37
Chapter 4			
Target costing	Mix	https://www.youtube.com/live/YN_WIqoe_5A?si=hUIJCIHsfp_DJagI	Page No.- 4.7
Life cycle costing- Characteristics & strategies of each stage	Theory	https://youtu.be/VXLPXJ4UgEA?si=XWAtjv_d5-FfPSpR	Page No.- 4.27
Throughput Accounting	Practical	https://youtu.be/5JG_jY13jPw?si=Ym5OfnNXQYab57qW	Page No.- 4.35
Chapter 5			
Types of Key tecnologies for Digital transformation	Theory	1) Internet of Things 2) 3D Printing 3) Robotics 4) Digital Twin 5) Artificial Intelligence 6) Augmented Reality 7) Automation 7) Mobile internet 9) Cloud 10) BlockChain 11) Autonomous Vehicle	-
Cloud Computing	Theory	https://youtu.be/J9O20Zt4o6c?si=0CAzr6aXe3qaD3cZ	Page No.- 5.6
Hyper Disruptive Business Models	Theory	Obtain only basic knowledge of models	Page No.- 5.29
Chapter 6			
CVP Analysis- Sell or Process Further	Mix	Only Read	Page No.- 6.22
Profit Maximisation Model	Mix	https://youtu.be/eOE-BrIQrSk?si=nWfGFa9kO9bYF2nt	Page No.- 6.37
Pricing under different market structure	Theory	1) Perfect Competition 2) Monopoly 3) Monopolistic Competition 4) Oligopoly (Predatory Pricing)	Page No.- 6.38
Pricing of New Product : Skimming & Penetration	Theory	https://youtu.be/he_AQuEwFTA?si=eKVf6g7lKV2fhLk-	Page No.- 6.45
Pricing of Existing Product: TEV	Practical	Do Illustration	Page No.- 6.51
Pricing Decision in Special Circumstances	Theory	Only Read	Page No.- 6.57
Kano's Performance attributes	Theory	https://youtu.be/drtyw08cG3o?si=B3hdUMH-9olFvzF7	Page No.- 6.65
Chapter 7			
Non Value Added Activity	Practical	Only Read	Page No.- 7.20

CHAPTERWISE IMPORTANT TOPIC WITH VIDEO SOLUTIONS AND ICAI SM LINKAGE			
Chapters	**Practical / Theory**	**Concept Bites**	**SM Pg.No.**
Pareto Analysis	Theory	https://youtu.be/UmoPqcgHqoA?si=E0gsIQ2z7WXm04aE	Page No.- 7.34
Chapter 8			
McKinsey's 7S	Theory	https://youtu.be/qMRu4B11G3U?si=GYYPjni9VhS0sJjI	Page No.- 8.13
Organisation Structure	Theory	1) Entrepreneurial 2) Line 3) Function 4) Divisional 5) Matrix 6) Project 7) Network/ Virtual	Page No.- 8.16
Z Score (No need to learn equation as it is always given in question, do learn how to calc X1,X2..)	Practical	https://youtu.be/ngGZ3N9_0jQ?si=tsXBdJDxhzLIBO8S	Page No.- 8.34
Argenti's A Score	Practical	https://youtu.be/FbHEDtgjHwk?si=fWumrHames5lU_Ta	Page No.- 8.39
Chapter 9			
ROI vs RI	Practical	https://youtu.be/zjxmQrQN7Mg?si=HSs3604_3YJH8ePZ	Page No.- 9.10
EVA	Practical	https://youtu.be/m8aAr-BDIMs?si=-xWpXwP-Yl-Wc6jS	Page No.- 9.16
Performance Pyramid	Theory	https://youtu.be/XswENHZxBrI?si=4SuTaOo1BDwwRf6a	Page No.- 9.29
Building Block Model	Theory	https://youtu.be/CdJhzaN-6aU?si=RXJ6aYbpCIWINx4y	Page No.- 9.33
Triple Bottom Line	Theory	https://youtu.be/SZ6GmoqYz78?si=kuyiN8y3Vc2n3wFz	Page No.- 9.35
Chapter 10			
Value for Money Framework	Theory	only Read (1 C.S.)	Page No.- 10.5
Chapter 11			
Types of performance reports	Theory	only Read (1 C.S.)	Page No.- 11.6
Chapter 12			
Transfer Pricing	Concept	https://youtu.be/tLSqO9Gij8M?si=TyaqADM9MMp7G1LS	-
	Practical	https://youtu.be/gFrIDQfOzDM?si=WydPO9zMvZE-vE0x	-

THEORY PART - REPEATED MCQs		
Sr No.	**Questions**	**Answers**
1	Which of the following is part of the 'Soft S' in McKinsey's 7S framework? a) Strategy b) Systems c) Structure d) Skills	Skills
2	Which of following statements are **incorrect** in regard to Argenti's A score model. 1. Mistakes and defects not inter-related. 2. Threshold is Kept at score of 45. 3. There are three underlying groups (dimensions) i.e., Mistakes, Defects and Symptoms of failure.	Both 1 and 2 only
3	The Ease of Value for money Framework	Economy, Efficiency, Effectivenss
4	2 extra Es in Value for money (VFM)?	Equity, Ethics
5	Maximise ratio of input of resources & output of goods, services or other material.	efficiency
6	Which one are **not** challenging assessment of effectiveness a) Define what constitute litter	Answer is in from other 3 option
7	**Case Study**: A company has four products (S, P, A, N) with different tag lines: Product S: Why Pay more When you Payless Product P: Conservation, Preservation & Sustain Product A: You get what you pay for Product N: Safety First	
8	a) Which one cost leadership strategy?	Why Pay more When you Payless (Product S)
9	b) Which one is product differentiation strategy?	You get what you pay for (Product A)
10	c) Which product emphasizes a differentiation strategy based on environmental sustainability?	Conservation, Preservation & Sustain (Product P)
11	d) Which product emphasizes safety as its primary differentiating factor?	Safety First (Product N)
12	Which of the following is not a reason to use the concept of Learning Curve?	Introducing new technology
13	Sales Rs. 4,00,000; Variable Cost Rs. 3,00,000; Fixed Cost Rs. 75,000; Investments Rs. 1,50,000 and desired 20% on investments. What is residual income?	-5000
14	Strategic Control means	Read from SM
15	Which Price Strategy involve setting a low initial price to quickly gain large market share?	Penetration pricing
16	Premium Price Strategy is when a) Price are high & demand elastic b) price are high & demand inelastic c) price are low & demand elastic	-
17	Pricing strategy of combining package with manufacturing coupon or rebate?	Mixed Bundling
18	**Case Study:** A service company, ServicePro Inc., has implemented the Building Block Model to enhance its performance measurement system. The model focuses on dimensions, standards, and rewards.	
19	a) Which of the following is a determinant under the Building Block Model? 1) Flexibility 2) Equity 3) Clear communication 4) Controllability	Flexibility
20	b) In the Building Block Model, what characteristic should performance measures possess to be considered equitable?	They should be challenging for all parts of the business equally
21	c) ServicePro Inc. sets a target to achieve four product innovations per year rather than simply "innovate". This target exemplifies which characteristic of standards in the Building Block Model?	Ownership
22	d) What is a key benefit of using the Building Block Model in performance measurement?	It aligns performance measures with strategic goals and employee motivation
23	Turnover increase is which dimension of building block model?	Financial Performance
24	Disruptive innovation refers to	the process of transforming an expensive or highly sophisticated product, offering, or service into one that is simpler, more affordable, and accessible to a broader population.
25	Disruptive innovation can be classified as	Low end disruption and new market disruption
26	Incubators means in a company ______	help startup by developing its strong idea into a viable product It work on a fee-basis as opposed to taking an equity stake in the startup.
27	Rework cost can classified as	Internal failure cost
28	Type of report Integrates scope, schedule, and cost performance using earned value management techniques	Earned Value Report
29	Type of report that Captures the state of the activity at a particular point or project at a particular point in its life cycle.	Status Report
30	**Case Study**: Coal... Ltd. is a leading company involved in the mining and production of coal. The company operates in a highly regulated industry with significant capital investments required for exploration and mining operations.	
31	a) Identify the level of threat of new entrants.	Low
32	b) Identify level of threat of substitute if allocation of new coal block to steel, thermal & other industries?	High
33	c) Analyze the intensity of competitive rivalry within the coal mining industry.	Very High
34	d) Assess the bargaining power of suppliers in the coal mining industry.	Low

THEORY PART - REPEATED MCQs		
Sr No.	**Questions**	**Answers**
35	**Case Study:** Match the following on Porter's five forces: a) The industry requires significant capital investments for new firms to enter. b) Large volume purchases by power plants give them significant negotiating power c) The presence of alternative energy sources like natural gas and renewables. d) Numerous coal mining companies compete aggressively for market share. e) Standardized inputs and multiple suppliers reduce supplier leverage.	a) Threat of New Entrants b) Bargaining Power of Buyers c) Threat of Substitutes d) Competitive Rivalry e) Bargaining Power of Suppliers
36	**Case study** related to Optimum price level (SM page. 6.37) Demand for Different price level given. Direct material, Direct labour, Variable cost, Fixed Cost data also given. Q. Calculate Price at which profit is maximum Q. If company sells at lowest possible price, DL cost will come down by 10% because of learning curve effect. Calculate revised profit.	
37	Which of these doesn't affect market share variance a) sales efforts, b) successful marketing strategy, c) learning curve effect.	Learning curve effect
38	Case study : Reverse Calculation of OEE **OEE %** & Availability %, data related to working normal working time, break time, good units, total units etc were **given**. Q Calculate Performance % Q Calculate Quality % Q Calculate ideal cycle time	
39	In a manufacturing environment, if a machine has an Availability of 90%, a Performance of 85%, and a Quality of 95%, what is the Overall Equipment Effectiveness (OEE)?	72.68%
40	A company reduced the price of its product to throw away the competitor from market. This pricing strategy is called?	Predatory Pricing
41	What describes the "Free Model" in disruptive business models?	A business model where the core product is free for a large number of users, but premium features are sold to a smaller subset.
42	Find out correct sentence about freemium - a) basic version is free & upgraded version is at premium, b) freemiums are free forever for basic versions & customers cant get full product c) offers free version for limited time.	A)
43	Business model in which the company applies lock system limiting customers options.	Service ecosystem model
44	Which of the following is an example of the "Subscription Model"?	An e-commerce platform charging a monthly fee for exclusive access to deals
45	A company sold Printers cheaply to build demand for high-margin printer cartridges. Which model is followed by co?	Razorblade business model - also known for cross subsidization
46	What is the primary characteristic of a hyper-competitive market?	High level of rivalry among the players
47	Which of the following is a strategic response to hyper-competition according to D'Aveni's 7S framework?	Shifting the rules of the market
48	Order of ADAPTED Balanced scorecard?	1)Customer, 2)Financial, 3) Internal, 4) Innovation learning
49	Which financial performance measure arguably has strong correlation with shareholders wealth?	Economic value addition
50	**Case Study:** Two divisions (Division A and Division B) have the following financial data: <u>Division A:</u> Operating Profit: ₹5,00,000 Capital Employed: ₹20,00,000 <u>Division B</u>: Operating Profit: ₹4,00,000 Capital Employed: ₹16,00,000 Company's Cost of Capital (CoC): 10%	
51	a) Calculate the ROI for Division A and Division B.	Division A: 25%, Division B: 25%
52	b) Calculate the RI for Division A and Division B.	Division A: ₹3,00,000, Division B: ₹2,40,000
53	c) Identify the correct statement about RI and ROI.	ROI is a relative measure, and RI is an absolute measure.
54	d) Given the current ROI of both divisions and the CoC, identify the correct statement (from an ROI perspective).	Division A manager will reject the project if its ROI < Division A's ROI, but the project should be accepted if its ROI > Company's ROI.
55	Which coefficient has more weight in Z score?	X3 (EBIT/ Total Assets)
56	Zscore is helpful in predicting what?	Bankruptcy
57	A Co was heavy engineering company involved in setting up & installing P&M having more than 350 offices in India with 2000 direct employees. From this, Identify the org structure of the company?	Divisional Structure
58	Formula to calculate no of relations & cross relations.	n(n-1)/2 & n(n-1)
59	ESG full form	Envirnmental, Social & Corporate governance

THEORY PART - REPEATED MCQs

Sr No.	Questions	Answers
60	Multi-national organizations try to maximize profits by using transfer pricing as a tool to reduce the tax impact on earnings. Where, the supplying division is in a country with _____ tax rate, the transfer price will be set lower in - order to reflect higher earnings (resulting from lower purchase cost) in the purchasing division, which has a ____ tax rate.	Higher tax rate & Lower tax rate respectively
61	Pareto principle based upon the law of	Diminishing returns
62	Question related to types of E Commerce Model	-
63	Full Form of STEEPLE	social, technological, economic, environmental, political, legal, and ethical
64	Full Form of SMART.	Strategic Measurement Analysis and Reporting Technique
65	Full form of SBU.	Strategic Business Unit
66	Level 2 in performance pyramid shows what??	In order to achieve corporate vision, the initial focus is on the attainment of CSFs related to market and finance at the SBU or division level.
67	Objective of Level 1?	organisation defines how long-term success and competitive advantage will be attained.
68	Which is superior against other in performance pyramid & Balanced scorecard.	Performance Pyramid
69	Limitation as compared to performance prism	Performance pyramid consider as only shareholder and customer whereas Performance Prism Model considers the expectations and contributions of all the stakeholders as core
70	Aim of JIT	reduce inventory holding costs and increase inventory turnover
71	What are primary objective of Just-in-Time (JIT) inventory management?	Minimizing inventory levels
72	Which of the following best describes a key benefit of implementing Just-in-Time (JIT) systems?	Reduced waste and improved efficiency
73	Limitation of Network or Virtual Organisation	reducing management's control and the reliability of partners
74	Meaning of Matrix organisation	Read from SM
75	Disclosure in ESR reporting	shed light on a company's ESG activities while improving investor transparency and inspiring peerorganizations
76	Deciding the selling price of the new product in market is the most difficult decision. While doing the variance analysis, the manager of the sales and marketing department of the company is interested to know which of the following is not responsible for Sales Price Variance – a) Higher discounts given to customers in order to encourage bulk purchases b) Failure to satisfy demand due to production difficulties c) Better sales price realization d) Market conditions or economic conditions forcing changes in prices across the industry	B)
77	Which of the following does Kaizen improvement process not focus on?	Improvement by innovation
78	**Case Study:** XYZ Ltd- South Korean Branch and Brazilian Branch, procuring through internal transfers 250000 units @35000, Variable cost is 30000, an external party offer is available to Brazilian branch, now company has asked South korean branch (transferor) to look into the matter.	
79	Q1 Calculate local consumption tax (tax rate, forex rate given)	-
80	Q2 Net P/L to South Korean Subsidiary	-
81	Q3 Net Benefit/ Deficit to company	-
82	Identification of Preventive or Appraisal cost	-
83	Identify business model - when two people interact and buy.	Ecommerce
84	**Question related to Case Study:** Why company failed?	technology not adapted due to management style or due to cost leadership thus not invested in tech
85	Radical one off changes to inborne ops and process	Process Re-engineering
86	Identification of Company Model: The company will charge them a fee to upgrade to a more comprehensive offer. To gain access to additional features or an upgraded version, users must pay a set fee to the company.	Freemium
87	Strategic cost Management help in__________	Managing cost (reduce cost) & alligning them to strategies
88	Identifying On-Demand Model.	Swiggy & Zomato
89	How does the "On Demand Model" disrupt traditional business models?	By charging a premium for instant access to products and services.
90	Difference Between Planning & Operational Variance	A Planning Variance simply compares a revised standard to the original standard whereas Operational Variance simply compares the actual results against the revised amount

THEORY PART - REPEATED MCQs		
Sr No.	**Questions**	**Answers**
91	**Case Study**: XYZ Ltd. operates in the consumer electronics industry and has adopted two distinct competitive strategies for its product lines: cost leadership and product differentiation. For its basic line of smartphones, XYZ Ltd. focuses on cost leadership, aiming to become the lowest-cost producer in the industry. For its premium line of smartphones, XYZ Ltd. emphasizes product differentiation by offering unique features and superior quality.	
92	a) Which strategy is XYZ Ltd. using for its basic line of smartphones?	Cost Leadership
93	b) What is the primary objective of a cost leadership strategy?	To become the lowest-cost producer in the industry
94	c) Which of the following features is most likely associated with XYZ Ltd.'s premium line of smartphones?	Unique features and superior quality
95	d) What is a key characteristic of a product differentiation strategy?	Unique product attributes that create value for customers
96	e) Which of the following is a potential risk of the cost leadership strategy for XYZ Ltd.?	Competitors imitating cost reduction strategies
97	f) In the context of XYZ Ltd., what could be a potential benefit of implementing a product differentiation strategy for its premium line?	Increased brand loyalty and customer retention
98	g) If XYZ Ltd. wants to maintain its cost leadership strategy, which of the following actions should it prioritize?	Reducing overhead costs and improving operational efficiency
99	h) What could be a significant challenge for XYZ Ltd. when pursuing a product differentiation strategy in a highly competitive market?	Keeping up with frequent technological advancements
100	**Case Study**: ABC Ltd. is a global manufacturing company looking to expand its operations in a new international market. The company's strategic team conducts a STEEPLE analysis to understand the various external factors that might impact their decision. The analysis covers: Social Factors: Increasing demand for eco-friendly products among consumers. Technological Factors: Rapid advancements in manufacturing technology. Economic Factors: Fluctuating exchange rates and inflation rates in the target market. Environmental Factors: Stricter environmental regulations and sustainability initiatives. Political Factors: Political stability and government policies favoring foreign investments. Legal Factors: Compliance with international trade laws and local labor laws. Ethical Factors: Corporate social responsibility and ethical labor practices.	
101	a) Which of the following is an example of a Social factor in the STEEPLE analysis for ABC Ltd?	Increasing demand for eco-friendly products
102	b) How might rapid advancements in manufacturing technology, a Technological factor, impact ABC Ltd.'s decision to expand?	By reducing production costs and improving efficiency
103	c) What type of factor is "stricter environmental regulations" in the context of the STEEPLE analysis for ABC Ltd.?	Environmental
104	d) Which factor in the STEEPLE analysis would involve assessing the compliance with international trade laws and local labor laws?	Legal
105	**Case Study**: DEF Ltd. is a company operating in the consumer electronics industry. The strategic management team at DEF Ltd. uses Porter's Five Forces Model to analyze the competitive environment and to develop strategies for maintaining its market position. The analysis covers: Threat of New Entrants: The industry has high barriers to entry due to significant capital investment requirements and strong brand loyalty among consumers. Bargaining Power of Suppliers: There are few suppliers of critical components, giving suppliers considerable power over prices. Bargaining Power of Buyers: Buyers have a moderate amount of power due to the availability of alternative brands and the increasing access to market information. Threat of Substitute Products: The threat is high due to rapid technological advancements and the availability of alternative electronic products. Industry Rivalry: Competition is intense among existing players, with aggressive marketing and frequent product innovations.	
106	a) Which of the following factors is considered under the "Threat of New Entrants" in Porter's Five Forces Model?	Significant capital investment requirements
107	b) What effect does the high bargaining power of suppliers have on DEF Ltd.'s operations?	It puts upward pressure on production costs
108	c) Why is the threat of substitute products considered high for DEF Ltd.?	Because of rapid technological advancements
109	d) What is the primary reason for intense industry rivalry in the consumer electronics market as faced by DEF Ltd.?	Aggressive marketing and frequent product innovations
110	e) How does moderate bargaining power of buyers impact DEF Ltd.?	It forces DEF Ltd. to focus on customer satisfaction and competitive pricing
111	f) Which of the strategies can DEF Ltd. use to mitigate the threat of new entrants?	Enhancing brand loyalty through marketing
112	**Case Study:** A service level agreement (SLA) has been established between XYZ Company and its client. The agreement includes a gain-sharing arrangement based on cost savings achieved over three years. The cost savings realized in each year are as follows: Year 1: ₹1,00,000 Year 2: ₹1,50,000 Year 3: ₹2,00,000	
113	a) What is the total cost savings achieved over the three years?	450000

THEORY PART - REPEATED MCQs

Sr No.	Questions	Answers
114	b) If the gain-sharing ratio is 50:50, how much does XYZ Company receive from the total savings?	225000
115	c) For Year 2, with a gain-sharing ratio of 40:60 between Client & XYZ, what is the client's share of the cost savings?	60000
116	d) Assuming the total cost savings in Year 3 are shared in a 30:70 ratio, how much does XYZ Company receive?	140000
117	**Case Study**: Raya Health Care Limited, a leading healthcare service provider in Mumbai, is outsourcing its CT scan and MRI services to Livlife, an international chain of diagnostic centres. Livlife promises to provide radiologist reports within 24 hours. The agreement includes: Cost savings generated in the first year will be retained by Livlife. Cost savings generated in the second and third years will be shared between Raya and Livlife at a ratio of 30%:70%. Cost savings generated in the fourth year will be passed to Raya. Additional Data: The total cost savings generated in each of the first four years are as follows: Year 1: ₹1,00,000 Year 2: ₹2,00,000 Year 3: ₹3,00,000 Year 4: ₹4,00,000	
118	a) How much cost savings is attributable to Company 1 (Raya Health Care Limited) in the second and third years combined?	₹ 1,50,000
119	b) How much cost savings is attributable to Company 2 (Livlife) in the second and third years combined?	₹ 3,50,000
120	c) What is the total amount of cost savings generated in the fourth year?	₹ 4,00,000
121	d) What is the cumulative amount of cost savings retained by Livlife over the four years?	₹ 4,50,000
122	**Case Study:** ABS Company: Total calls: 12,000 Calls answered within the threshold limit: 11,500 Abandoned calls: 300 RBS Company: Total calls: 9,500 Calls answered within the threshold limit: 8,000 Abandoned calls: 250	**95/20 for ABS**: This likely means that 95% of the calls should be answered within 20 seconds. **90/15 for RBS:** This likely means that 90% of the calls should be answered within 15 seconds.
123	a) What is SLA threshold & what is threshold time?	It is Activity response time specified in agreement. Threshold Time: For ABS, the threshold is 20 seconds. For RBS, the threshold is 15 seconds.
124	b) What is the SLA threshold in percentage for ABS and RBS?	95% and 90%
125	c) Compute the Service Level (SL)?	ABS: 98.29% RBS: 86.49%
126	Which of the following is NOT a component of the Cost of Quality (COQ)? a) Prevention Costs b) Appraisal Costs c) External Failure Costs d) Market Share Costs	Market Share Cost
127	Who popularized the concept of the Cost of Quality in his book "Quality Is Free"?	Philip B. Crosby
128	Which of the following costs is associated with the prevention of poor quality in products and services?	Prevention Cost
129	What type of cost is associated with defects that are found before the customer receives the product or service?	Internal Failure Costs
130	**Case Study:** JK Ltd. produces and sells a single product. Presently, the company has an annual external failure cost of ₹440,000 and an internal failure cost of ₹850,000. The company considers implementing a new quality control system, which would result in an annual prevention cost of ₹560,000 and an appraisal cost of ₹70,000. The new system is expected to reduce external and internal failure costs by ₹100,000 and ₹410,000 respectively. All other activities and costs will remain unchanged.	
131	a) What will be the total cost of quality (COQ) after implementing the new quality control system?	₹ 15,90,000
132	b) Based on the new system, should JK Ltd. implement the new quality control system?	Yes, it results in a cost saving.
133	**Case Study:** ABC Ltd. implemented Just-in-Time (JIT) inventory management. The following changes were observed post implementation: Reduction in inventory holding costs by 30% Increase in on-time delivery from 85% to 95% Decrease in production lead time by 40% Improvement in product quality, reducing defects by 20%	
134	a) What was the initial inventory holding cost if it was reduced by ₹60,000 after a 30% reduction?	₹ 2,00,000
135	b) What is the new on-time delivery rate after JIT implementation?	85%
136	c) If the initial production lead time was 10 days, what is the new lead time after a 40% reduction?	6 days
137	d) If the defect rate was initially 5%, what is the new defect rate after a 20% improvement?	4%
138	**Case Study:** DEF Manufacturing has decided to implement Just-in-Time (JIT) inventory management to streamline their production process and reduce costs. Before implementing JIT, the company held an average inventory worth ₹500,000. Post-implementation, several changes were observed: Inventory holding costs reduced by 25% Production lead time decreased from 12 days to 7 days On-time delivery rate improved from 80% to 92% The defect rate decreased from 6% to 3%	
139	a) What is the amount of reduction in inventory holding costs post-JIT implementation?	₹ 1,25,000
140	b) What is the new inventory holding cost after the reduction?	₹ 3,75,000

THEORY PART - REPEATED MCQs

Sr No.	Questions	Answers
141	c) By how many days did the production lead time decrease after implementing JIT?	5 days
142	d) What is the percentage improvement in the on-time delivery rate?	12%
143	e) What is the percentage decrease in the defect rate?	3%
144	Which of the following best describes blockchain technology?	A system that records public transactions, or blocks, in multiple records known as chains, linked by peer-to-peer connections.
145	Sigma Cast & Pig Moulder (SC&PM) Limited has the following financial details: Working Capital: ₹4,200 crores Total Assets: ₹3,500 crores Retained Earnings: ₹800 crores EBIT: ₹6,500 crores Market Value of Equity: ₹7,000 crores Total Liabilities: ₹5,000 crores Sales: ₹8,300 crores Calculate the Altman Z-Score for SC&PM Limited.(manuacturing)	11.097
146	How many main dimensions does Argenti's A-Score model include?	Three
147	In the Triple Bottom Line framework, which aspect would NOT be reported under the "People" bottom line?	Net income
148	The number of inpatient hospital deaths decreased 8% from 776 in 2022 to 715 in 2023. This metric falls under which bottom line?	Social (People)
149	**Case Study:** A company, EcoMinds Ltd., has undertaken several initiatives towards sustainability. The company's operations impact the environment and society and are focused on long-term economic viability.	
150	a) Which of the following is an example of the "Planet" bottom line in the Triple Bottom Line framework?	Implementing a recycling program for waste materials
151	b) Which metric would be most relevant to the "People" bottom line in the Triple Bottom Line framework? a) Net profit margin b) Employee turnover rate c) Energy consumption d) Return on investment (ROI)	Employee turnover rate
152	c) EcoMinds Ltd. reported the following initiatives: constructing a solar-powered warehouse and reducing plastic usage in packaging. Under which bottom line would these initiatives be classified?	Planet
153	d) What is the primary goal of the Triple Bottom Line framework?	Measuring a company's performance in financial, social, and environmental terms
154	**Case Study:** Water Utilities Services (WUS) is involved in water distribution and water bottle operations. The company's performance is evaluated using Economic Value Added (EVA) and the Return on Capital Employed (ROCE) set by the regulator at 7.00%. Data Provided: Revenue from Water Distribution Operation (WDO): ₹555 Crore Revenue from Water Bottle Operation (WBO): ₹186 Crore Operating Cost for WDO: ₹460 Crore Operating Cost for WBO: ₹119 Crore Finance Charges: ₹46 Crore Tax Rate: 30% Capital Employed as per Regulator for WDO: ₹1,558 Crore	
155	a) Calculate the Economic Value Added (EVA) for WUS	₹5.98 Crore {EVA=NOPAT−(WACC×Capital Employed) NOPAT=Operating Profit−Tax}
156	b) Assess whether WUS complies with its acceptable ROCE level set by the regulator	No, ROCE is below 7.00%
157	c) Identify a method to improve WUS's profitability.	Increase NOPAT or reduce capital employed
158	**Case Study**: Match the following: a) Task Environemnt in context of capability i.e., resources, core competences b) Culture, beliefs, and assumptions of the organisation c) Environment in context of competitors, markets,regulations, d) Stakeholders' influence and expectations	a) Strengths and Weaknesses b) Vision and Values c) Opportunities and Threats d) Mission and Objectives
159	Performance pyramid called as **SMART**	-
160	Identify level of Bargaining price of buyer & Supplier	-
161	ROI: Suborganisation & relative RI: absolute	-
162	DLT (Distributed ledger technology) is a decentralized database with many members. The digital ledger's data is extremely secure	-
163	MCQ related to " Which is not covered under Hyper Disruptive Model" (SM page no. 5.29)	-
164	IT/IM Strategy not implemented due to which reason?	-

PRACTICAL PART - REPEATED MCQs - DIRECTLY FROM SM				
Sr.No.	Chapter	Topic Name	Question No - ICAI SM Referenced	Page No
1	Modern Business Environment	Gain Sharing Arrangement- Cost Savings	Case Scenario	2.33
2	Lean System and Innovation	JIT	Illustration 1	3.14
3	Lean System and Innovation	JIT	TYK 2	3.50
4	Lean System and Innovation	Overall Equipment Effectiveness (OEE)	TYK 5	3.52
5	Specialist Cost Management Techniques	Life Cycle Costing	TYK 3	4.59
6	Specialist Cost Management Techniques	Theory of Constraints	TYK 6	4.61
7	Specialist Cost Management Techniques	Environmental Management Techniques	TYK 8	4.63
8	Strategic Revenue Management	Profit Maximisation	Example	6.37
9	Strategic Revenue Management	True Economic Value (TEV)	Example	6.51
10	Strategic Revenue Management	Kano's Performance Attributes	Read theory- will be able to manage practical sums	6.65
11	Strategic Revenue Management	Revenue Maximisation	TYK11	6.85
12	Strategic Profit Management	MCE	TYK 1	7.42
13	Strategic Profit Management	Pareto Analysis	TYK 7	7.47
14	Introduction to Strategic Performance Management	Elements of 7S	Read theory- will be able to manage practical sums	8.14
15	Introduction to Strategic Performance Management	No. of Relations	Illustration	8.15
16	Introduction to Strategic Performance Management	Altman Z Score	Read theory- will be able to manage practical sums	8.35
17	Introduction to Strategic Performance Management	Argenti A Score	Read theory- will be able to manage practical sums	8.40
18	Strategic Performance Measures in Private Sector	Performance Pyramid- Building Block Model	Illustration 6	9.31
19	Divisional Transfer Pricing	Different Capacity Levels	Example	12.16
20	Divisional Transfer Pricing	International Transfer Pricing	MCQ from 3rd Para	12.25
21	Divisional Transfer Pricing	International Transfer Pricing	TYK 8	12.46
22	Standard Costing	Interpretation of Variances	-	13.25
23	Standard Costing	Labour Rate and Efficiency Variance Interpretation	-	13.26
24	Standard Costing	Variance Interpretation	Illustration 6	13.28
25	Standard Costing	Variance Interpretation	MCQ 11	13.54
26	Standard Costing	Variance Interpretation	TYK 9	13.61
27	Standard Costing	Variance Interpretation	TYK 10	13.61
28	Specialist Cost Management Techniques	Throughput Accounting	Illustration 5	4.35
29	Introduction to Strategic Cost Management	Primary and Secondary Activities	MCQ 4	1.62
30	Modern Business Environment	External Failure Costs Theory	External Failure Costs Theory	2.6
31	Lean System and Innovation	OEE	Illustration 2	3.30
32	Lean System and Innovation	Kaizen	MCQ 3	3.48
33	Management of Cost Strategically for Emerging Business Models	Hyper Competition	Read theory- will be able to manage practical sums	5.12
34	Management of Cost Strategically for Emerging Business Models	Disruption	Read theory- will be able to manage practical sums	5.13
35	Management of Cost Strategically for Emerging Business Models	Business Models	Read theory- will be able to manage practical sums	5.28
36	Management of Cost Strategically for Emerging Business Models	Digital Platform	Read theory- will be able to manage practical sums	5.31
37	Strategic Performance Measures in Private Sector	EVA	TYK 4	9.44
38	Divisional Transfer Pricing	International Transfer Pricing	Example	12.25
39	Standard Costing	Learning Curve Impact on Variances	Illustration 3	13.10

Repeated Practical Questions (Other than SM)

MTP Sept 22

2. The "K" Ltd. offers a range of beauty parlor services like hair care, body care, manicures/ pedicures, skincare, etc. It has 150 Centre/s across the country. The business of beauty parlor is extremely competitive in all region. Each centre operates autonomously and managers are able to offer customize services.

"K"'s mission statement is "to inspire and enhance beauty by using knowledge and experience". To establish long term relationship of trust and commitment with clients, "K" wants to provide their client highest level of satisfaction with emphasis on;

- Service Customization
- Professionalism, Work, and Clinical Responsibility
- Client's Feedback

Company has developed a website where it creates blogs, post high-quality content related to beauty tips. Website is also connected to social media to reach customers. If a customer searches "K"'s services on search engine, it automatically redirects to the place of nearest service center. "K"'s all services are presently booking through online channel.

Results for one of the center, ""X"", are given below. The column headed "Centre" shows the **average figures** for all Centre/s:

Particulars	**"X" Oct'22**	**Centre Oct'22**
Revenue (₹)	91,26,000	1,08,66,900
Gross profit (₹)	48,50,400	51,37,740
Number of senior Beauticians	90	110
Number of junior Beauticians	60	55
Number of website hits	15,010	19,260
Total number of services booked online and completed	9,915	12,270
Number of services taken from repeat customers	1,510	1,605
Total time spent completing jobs (hours)	24,120	25,880
Number of new service packages	3	2
Customer percentage in terms of feedback forms showing score of 9 or 10	86%	77%

Notes

(1) Beauticians are categorized as 'senior' if they have been qualified for more than three years.

(2) 'Junior' Beauticians includes both trainee beauticians and beauticians who have been qualified for less than three years.

(3) The "X" launched three new service packs during the year:

- free coupon of worth ₹600 for services over and above ₹1,200.
- a head massage costing only ₹240, instead of the usual ₹480, for 10 days advanced bookings.
- a haircut ₹120 will be charge, which usually costs ₹360, for all customers booking hair spa.

These three new service packs produced revenues of ₹7,92,000; ₹6,96,000 and ₹6,48,000 respectively. Two comparable new service packs developed by other centre/s produced revenues of ₹5,28,000 and ₹5,04,000.

(4) Customers to rate the particular centre from 1 to 10 in an online feedback form with 10 being the best.

The Chief Executive Officer (CEO) of "K" has recently attended a webinar and heard about Building Block Model of Performance Management. The CEO is interested to know how the dimensions block could be applied at "K" Ltd.

Required

(i) ANALYZE "X"'s performance relative to the other Centre/s. **(12 Marks)**

(ii) EXPLAIN how the Standards and Rewards blocks support the Dimensions block in case of Building Block Model. **(8 Marks)**

2. (i) Analysis

Competitiveness

	"X"	Centre/s Average
Website hits converted into orders (in percentage)	66.06% (9,915/15,010) × 100	63.71% (12,270/ 19,260) × 100

This ratio shows whether "X"'s services are *attractive compared to its competitors*, which is essential if it is going to persist in such a competitive market.

It has performed considerably better than Centre/s average, having converted 66.06% of website hits into jobs, compared to the 63.71% converted by other Centre/s. This is a good outcome.

Financial Performance

	"X"	Centre/s Average
Gross profit ratio	53.15% (48,50,400/ 91,26,000) × 100	47.28% (51,37,740/ 1,08,66,900) × 100

Gross profit ratio is the *measure for financial performance*. It indicates the percentage of revenue which exceeds the cost of goods sold.

"X"'s gross profit ratio is 5.87% higher than the average, which is a good result. This could be because of new service pack sales. It is also likely to be because of ratio of senior beauticians to junior beauticians (1.5), which is lower than the average (2) and junior beauticians will invariably be paid less than senior ones.

Quality of Service

	"X"	Centre/s Average
Jobs from repeat customers (in percentage)	15.23% (1,510/ 9,915) × 100	13.08% (1,605/ 12,270) × 100

Quality is a key aspect of "X"'s service to customers and *if it is poor, customers will not return*.

Again, "X" has surpassed the other Centre/s on average by 2.15 percentage points. Though, it has a lower ratio of senior beauticians to junior beauticians (1.5) than other Centre/s (2), it might be possible that "X" has a portfolio of enthusiastic staff. So, the quality of work is probably better, thus the higher level of repeat customers.

Flexibility

	"X"	Centre/s Average
Time taken per job (hrs.)	2.43 (24,120/ 9,915)	2.11 (25,880/ 12,270)

The comparison shows that "X" takes longer time to complete a job than the other Centre/s average, which is not really good, and is probably because of they have slightly *less experienced staff* on the whole, but it could also be that they *do a more comprehensive job* than other Centre/s. Given the fact that they have a higher % of return customers than the other Centre/s and they are also graded 9 or 10 by most of the customers (86%). Therefore, this cannot be viewed as too adversely.

Resource Utilization

	"X"	Centre/s Average
Revenue per beautician (₹)	60,840 (91,26,000/ 150)	65,860 (1,08,66,900/ 165)

The *crucial resource in a service company is its staff* and so these indicators measure how this resource is being utilized.

"X"'s utilisation of its staff is lower than that of the other Centre/s by ₹5,020 per beautician. This clearly links in with the point that the average time to complete a job is longer at "X" than other Centre/s. However, given that "X" uses a slightly less experienced staff than other Centre/s and the fact that its gross margin is higher than the average, this should not also be viewed too adversely.

Innovation

	"X"	Centre/s Average
Revenue generated from new service packs (in percentage)	23.4% {(7,92,000 + 6,96,000 +6,48,000)/ 91,26,000} ×100	9.5% {(5,28,000 + 5,04,000)/ 1,08,66,900} × 100

"X" is offering a wide variety of service packs to its customers. The ratio of 23.4% indicates that "X" has really outperformed other Centre/s on this front, generating a far larger part of its revenue by the introduction of new service packs, which must have attracted customers. This is a really good performance.

The **standards** block fixes the target for the performance indicators chosen for each of the dimensions. The targets must meet three criteria – they must be achievable, fair and encourage employees to take ownership. The performance of the organization could suffer if the targets set do not meet these criteria.

The **rewards** block makes sure that employees are motivated to attain the standards. It also examines the properties of good reward schemes which are that they should be clear, motivating and based on controllable factors.

If standards and rewards are set appropriately, the staff will be engaged and motivated and it is then more likely that the goals, i.e. **dimensions**, of the organisation will be achieved

Question 28

Jal Cleaning and Distribution Services Ltd. (JCDSL) was established with an aim for supply and distribution of water in Nagpur and as well as supply of water to the various local authorities for distribution to villages and other small cities adjacent to Nagpur under "MISSION PAANI". This involved planning, operating, treating, maintaining, and distributing water resources in the country's urban centres and other areas mandated by State Government. The mission statement is to provide clean and economical water for healthy life to the public":

There are two operational divisions of JCDSL viz Water Distribution Operation (WDO) for distribution of water through pipes and Water Packaging Operation (WPO) for supplying water in packaged drinking water bottles. The state government ensures that JCDSL does not take advantage of its monopoly position in the regional area by increasing prices. The government controls majority of services through its water regulatory body which determines an acceptable margin level (ROCE) and ensures that the pricing of JCDSL within these areas does not break this level. The other operation Le. Water Packing Operation (WPO) is not regulated by government and JCDSL is free to charge a market rate for water supply in bottles. The company is free to use water for Water Packaging Operation but the total use of water for Water Packing Operation (WPO) cannot exceed 35% of the total supply of water by the company. The company is presently using 20% of total water supply for packaging operation. The brand name of packaged drinking water is "Swachh-Jal" which is packed in transparent plastic bottles.

The· water regulator calculates Return on Capital Employed (ROCE) of JCDSL based on its own valuation and assessment of the capital assets which are used in operation and profit from these services. Acceptable level of ROCE set by the regulator is 6.50%. If JCDSL breach this level, then the company would be heavily penalized. JCDSC board is making sincere efforts t6 improve the performance of the company for the benefit of the shareholders. The board of directors have decided to consider economic value added (EVA) as the key performance indicator, in order to meet the objective of maximizing shareholders' wealth.

Key Financial data for the year ending 31st March, 2020 is given below :

Particulars	Water Distribution Operation (₹ In Crore)	Water Packing Operation (₹ In Crore)	Total (₹ In Crore)
Revenue	585.00	212.00	797.00
Less: Operating Cost	475.00	146.00	621.00
Operating Profit	**110.00**	**66.00**	**176.00**
Less: Interest Cost			42.00
Profit before tax			134.00
Less: Tax @ 30%			40.20
Profit after tax			93.80

Capital Employed for the last two years

Particulars	2019-20 (₹ In Crore)	2018-19 (₹ In Crore)
As per Audited Accounts	2,040.00	1,940.00
As calculated by Water Regulator (for WDO operations only)	1,812.00	1,760.00

The following notes are to be taken into consideration in the analysis:

1. *Operating Costs include:*

Particulars	2019-20 (₹ In Crore)	2018-19 (₹ In Crore)
Depreciation	124.00	118.00
Provision for bad and doubtful debts	6.00	2.00
R&D Cost	20.00	---
Other Non-Cash items	22.00	11.00

2. *Economic depreciation is ₹ 156.00 Crore in 2019-20. In the FY 2018-19, economic and accounting depreciation were assumed to be the same.*
3. *Current year's tax paid is ₹ 23.00 Crore and deferred tax provisions of ₹ 2.00 Crore have been adjusted. There was no deferred tax balance before 2019-20.*
4. *The provision for doubtful debts was ₹ 12.00 Crore in the 2019-20 Balance Sheet.*
5. *Research and development has been non-capitalized. It belongs to a new project that will be developed over six years and is expected to be of long-term benefit to the company. 2019-20 is the first year of this project.*
6. *Cost of Capital:*

Equity	15%
Debt (Post Tax)	5%

7. *Gearing of JCDSL Equity:*

Equity	30%
Debt (Post Tax)	70%

Required

(i) CALCULATE EVA of JCDSL for the year ending 31 March, 2020 based on the above information.

(ii) EVALUATE the financial performance of JCDSL using EVA.

(iii) ASSESS whether JCDSL comply with its acceptable ROCE level.

(iv) ADVISE how JCDSL can improve its performance in terms of profitability and EVA in future.

Answer

(i) EVA of JCDSL for the year ending 31st March 2020 is negative ₹0.16 Crores.

Calculation of EVA →

NOPAT – (WACC × Capital Employed)

= ₹156.40 crores – (8% × ₹1,957 crores)

= ₹156,40 crores – ₹156.56 crores

= – ₹0.16 Crores

Working Note 1 - Computation of NOPAT (Net operating profit after tax)

Particulars	₹ in Crore
Operating Profit	176.00
Add:	
Accounting Depreciation	124.00
Provision for Bad and Doubtful Debts	6.00
Research and Development	20.00
Other Non-Cash Items	22.00
Less:	
Economic Depreciation	156.00
Tax Paid	23.00
Tax Saving on Interest (₹42crores × 30%)	12.60
NOPAT	**156.40**

Working Note 2 - Computation of Capital Employed

Particulars	₹ in Crore
Capital Employed as on 31.03.2019	1,940.00
Add:	
Provision for Bad and Doubtful Debts as on 31.03.2019 (i.e. ₹12 - ₹6 crore)	6.00
Other Non-Cash Items (incurred in 2018-19)	11.00
Adjusted Opening Capital Employed	**1,957.00**

Working Note 3 - Calculation of WACC

$[(K_e \times V_e) + (K_d \times V_d)]/ (V_e + V_d)]$

= 15% × 0.30 + 5% × 0.70

= 8%

(ii) Evaluation of Financial Performance →

Presently, JCDSL is distorting value (negative EVA of ₹16 lacs) as it is not able to meet the economic cost of its own capital, hence detrimental to shareholder's interest. The negative EVA raise the question on sustainability of business, hence *perpetual succession become doubtful*.

The prominent reason of negative EVA may be a higher cost of equity for JSDSL i.e. 15%. Here it is worth noting that despite around <u>73.40% (585/797) of the revenue to JCDSL is from WDO</u> which is *regulated one* and wherein *demand is guaranteed in future*. Hence, *investing risk shall be low*.

Another major reason of negative EVA may be cap on ROCE in case of WDO hence NOPAT can't be raised beyond a level. JCDSL can focus on WPO to increase its NOPAT (to make it enough for break-even) *or* it can slash its *capital employed* by selling unutilized or under-utilized assets.

(iii) ROCE of WDO is 6.25% (see working note below), hence JCDSL is complying with the acceptable cap limit of 6.50%.

Working Note – Computation of ROCE from WDO

$$ROCE = \left(\frac{\text{Operating Profit}}{\text{Capital Employed}}\right) \times 100.00\%$$

= (₹110 crores / ₹1,760 crores) × 100 **= 6.25%**

(iv) Advise →

> In order to improve performance in term of EVA or profitability JCDSL may apply any of the initiative either individually or in any combination– operating profits can be made to grow without employing more capital in both operations, but especially in WDO i.e. greater efficiency; additional capital shall be invested in WPO where the return is more than the cost of obtaining the capital, i.e. profitable growth; capital shall be divested from those projects that do not cover the cost of capital, i.e. liquidate unproductive capital.

Chapter 6	**RTP May21**
Q. asked in SPOM	Q1. Marginal Cost Per Batch
	Q2. Op□mum Quan□ty(Q) and Op□mum Price (P)
	Q3. Total Profit

Q. Zutus Ltd. is a leading Indian Pharmaceutical company which is a fully integrated, global healthcare provider. With in-depth domain expertise in the field of healthcare, it has strong capabilities across the spectrum of the pharmaceutical value chain. Zutus has earned reputation worldwide amongst pharmaceutical companies for providing comprehensive and complete healthcare solutions.

One of the drugs, Rifmn is an antibiotic used to treat contagious disease "Tbis". Rifmn is a patented medicine. The patent for which is now going to expire, and several other competitors are expected to enter in the market for selling the medicine using the same components of chemicals, under different other name. In order to reposition itself in the market, the company is reviewing its pricing policy considering the market change and other threat.

The market research for Rifmn indicates that for every ₹ 4 decrease in price, demand would be expected to increase by 8,000 batches, with maximum demand for Rifmn being one million batches.

Each batch of Rifmn is currently made of using chemical salts:

Salt X: 367.50 gm at ₹ 0.08 per gm

Salt Y: 301.50 gm at ₹ 0.40 per gm

Each batch of Rifmn requires 30 minutes of machine time to make and the variable running costs for machine time are ₹ 40 per hour. The fixed production overhead cost is expected to be ₹ 35 per batch for the period, based on a budgeted production level of 3,00,000 batches.

The skilled workforce who has been working on Rifmn until now are being shifted onto the production of Zutus company's new antiviral drug (injection) for Viral Disease-19 which costs millions of ₹ to develop. Zutus has obtained patent for this revolutionary drug and it is expected to save millions of lives all across the world. The launch of this drug is excitedly anticipated all over the world, while its demand in unknown and no other similar specific drug exists. The average labor cost (outsourcing) of each batch of Rifmn is ₹ 38.60.

The management of Zutus considers that pricing decision of Rifmn should be based on each batch.

[redacted]

(i) **Demand function**

b = change in price/change in quantity b = ₹ 4/8,000 units = 0.0005

The maximum demand for Rifmn is 10,00,000 units, so where P = 0, Q = 10,00,000, so 'a' is established by substituting these values for P and Q into the demand function:

$0 = a - (0.0005 \times 10,00,000)$

$0 = a - 500$

Therefore, a = 500

Demand function is therefore: P = 500 – 0.0005Q

Marginal cost

		Total ₹
Salt X	367.50g × ₹ 0.08	29.40
Salt Y	301.50g × ₹ 0.40	120.60
Labour	Given in ques	38.60
Machine running cost	(30/60 × ₹ 40.00)	20
Total marginal cost per batch		208.60

Marginal revenue function: MR = a – 2bQ

Equate MC and MR and insert the values for 'a' and 'b' from the demand function in step 1

$\Rightarrow 208.60 = 500 - (2 \times 0.0005 \times Q)$

Solve the MR function (to determine optimum quantity, Q)

$\Rightarrow 208.60 = 500 - 0.001Q$

$\Rightarrow 0.001Q = 291.4$

$\Rightarrow Q = 291{,}400$ batches

Calculate the optimum price

$\Rightarrow P = 500 - (0.0005 \times 291{,}400)$

$\Rightarrow P = ₹\ 354.30$

Calculate Profit

	₹
Revenue (2,91,400 batches × ₹ 354.3)	10,32,43,020
Less: Variable costs (2,91,400 batches × ₹ 208.60)	6,07,86,040
Less: Fixed costs (3,00,000 batches × ₹ 35)	1,05,00,000
Profit	3,19,56,980

Chapter 13 **Sales Variance (May22Exam)**

Q. asked in SPOM

Q.1 Budgeted Sales

Q.2 Budgeted Magin (Budgeted Profit)

Q.3 Actual Magin (Actual Profit)

Q.4 best performer zone

Q. ORAL LTD. is engaged in marketing of wide range of electronic goods. The area is divided in four zones - North, South, East and West. Each zone has zonal sales head. The company fixes annual sales target for zonal heads. The cost of sales target fixed during 2021 is as under:

North	₹ 25,00,000
South	₹ 22,00,000
East	₹ 26,50,000
West	₹ 20,00,000

The Zonal sales managers are paid commission @ 10% on sales made by them. During 2021 the sales commission paid for each zone is as under:

North	₹ 3,00,000
South	₹ 2,90,000

East	₹ 3,10,000
West	₹ 2,40,000

The summary of the variances calculated for each zone are as under:

Particulars	North	South	East	West
Sales Price Variance	40,000 F	60,000 A	50,000 A	20,000 A
Sales Volume Variance	60,000 A	2,60,000 F	1,50,000 F	80,000 F
Sales Margin Mix Variance	1,40,000 A	80,000 F	1,70,000 F	30,000 A

The Company wants to award an incentive to the best performer among all the zonal managers on the basis of:

1. Contribution earned to the company
2. Achievement of the sales target.
3. Sales margin achieved against target margin.

Answer

Statement Showing "Sales Target Fixed & Actual Margin/ Contribution

Particulars	Zone (₹)			
	North	South	East	West
Commissioned Earned	3,00,000	2,90,000	3,10,000	2,40,000
Actual Sales (Commission Earned/ 10%)	30,00,000	29,00,000	31,00,000	24,00,000
Sales Price Variance	40,000 (F)	60,000 (A)	50,000 (A)	20,000 (A)
Sales Volume Variance	60,000 (A)	2,60,000 (F)	1,50,000 (F)	80,000 (F)
Sales Target (Budgeted Sales)	30,20,000	27,00,000	30,00,000	23,40,000
Standard Cost of Sales Target	25,00,000	22,00,000	26,50,000	20,00,000
Budgeted Margin	5,20,000	5,00,000	3,50,000	3,40,000
Sales Margin Mix Variance	1,40,000 (A)	80,000 (F)	1,70,000 (F)	30,000 (A)
Sales Price Variance	40,000 (F)	60,000 (A)	50,000 (A)	20,000 (A)
Actual Margin	4,20,000	5,20,000	4,70,000	2,90,000

Statement Showing "Evaluation of the Performance of Zonal Sales Managers"

Particulars	Zone			
	North	South	East	West
Contribution earned to the company				
(a) Margin Earned (₹)	4,20,000	5,20,000	4,70,000	2,90,000
(b) Rank	III	I	II	IV
Efficiency towards the Target Sales				
(a) Whether target achieved	No	Yes	Yes	Yes
(b) Actual Sales to Target Sales Ratio	99.34%	107.41%	103.33%	102.56%
(c) Rank	IV	I	II	III
Margin Vs Sales Ratio				
(a) Budgeted Margin/Sales Target Ratio	17.22%	18.52%	11.67%	14.53%
(b) Actual Margin Vs Actual Sales Ratio	14.00%	17.93%	15.16%	12.08%
(c) Achievement	81.31%	96.82%	129.91%	83.14%
(d) Rank	IV	II	I	III

ANALYSIS

The **margin vs. sales ratio** helps to track how much margin firm is making from its sales. Zone EAST is yielding a ratio of 15.16% against the target ratio of 11.67% which is the good indicator of performance. At the same time, other zones are not performing well as they have been clearly failed to achieve this target ratio, for instance NORTH Zone is yielding a ratio of 14% against the budgeted figure of 17.22% while SOUTH Zone is almost near to this ratio and West zone is also falling behind by 2.45%.

On the basis of **margin earned** SOUTH Zone is the best zone since it is highest contributor 30.59% to the total margin of the ORAL while EAST Zone is contributing 27.65% and NORTH Zone is contributing 24.71%. Zone WEST is contributing only 17.05% which is the lowest among all.

NORTH Zone is clearly failed to achieve the **target sales** while SOUTH has obtained a figure 7.41% over and above the targeted sales. Zone EAST and WEST have also successfully achieved the targeted sales.

Conclusion

NORTH and WEST Zone have been ranked either III or IV in each standard criterion while SOUTH & EAST Zone are standing at either I or II in these criteria. SOUTH Zone is having highest sales as well as highest margin amongst all zones, but they are failed to achieve target margin ratio, they are slightly behind the ratio. Zone EAST is having superb margin vs. sales ratio as discussed earlier at the same time they have achieved targeted sales ratio. They are just behind SOUTH zone in target sales ratio and margin (in absolute term). On the basis of analysis, this can be concluded that **Zone EAST is best performer**.