CA FINAL - COSTING (NEW)

STRATEGIC COST MANAGEMENT AND PERFORMANCE EVALUATION

RAPID FIRE OF CASE STUDIES

- All ICAI Module -3 Case Studies
- Issue, Concept, Explanation, Conclusion
- Only Main Points Covered

CASE STUDY

CA SANKALP KANSTIYA
CASE STUDY - 01
VALUE CHAIN ANALYSIS
AND BALANCE SCORECARD
DP LIMITED

ISSUES
DP Ltd is engaged in manufacturing of wire rods. Its focus is on increasing customer base. Copper prices declined by 20% & copper team is waiting for it to decline more to gain more bonus, which is based on savings. The wait has almost resulted in a stockout. CFO is not happy with this approach of performance measurement.

CONCEPT
• Primary activities of Copper Division.
• Current performance measurement issue.
• Alternate performance measurement and KPI.

EXPLANATION
VCA focused on how business inputs are converted into output and how value can be added at every level.
Primary: Inbound logistics [Transfer Copper cathodes from supplier]
Operations: [Copper to wire rods]
Outbound: (Warehouse copper wire rods)
Marketing & Sales [Adv in national dailies & conference]
After Sales: [Proper Service Team]
Performance Measurement Issue: Current system of bonus is based on financial savings and as a result quality is compromised to a certain extent. Performance measurement should be based on overall objective of the company.

CONCLUSION
Alternate Performance Measure: Balance Score Card as it focuses on overall & long term objective of the company.

4 Perspective:
• Financial
• Internal Business
• Training & Growth
• Customer Perspective
Mapping of value chain activities of S-MART (Reference Dmart based on its business)

**Secondary**

- **Procurement**
  - 500 Vendors
  - Adv. Payment/ Preferential pricing

- **Technology**
  - Process automation
  - SAP/R3 ERP for management of various funds

- **HR**
  - Low Employee T/O
  - High motivation

- **Infrastructure**
  - Finance legal. Etc.

**Primary Activities**

- **Inbound**: Own feet of trucks for transport. JIT System for minimum inventory level.

- **Operations**: 100 stores all self owned & No Franchisee / Agent Model.

- **Outbound**: No warehouse required as the products are directly delivered to the customer from the store shelves.

- **Marketing sales**: Focus on customer loyalty by offering high quality products. No huge spend on marketing.

- **Service**: Superior experience by managing return of products.
CASE STUDY - 03
PORTER’s VCA vs VALUE SHOP

WSS

ISSUES

Business of Solar domestic water heater. In past 4 years, profit and market share have reduced.

CONCEPT

Skilled experts design heater as per customer
Best After Sales Service

But customer complaints of over pricing hence the decline in sales. What kind of VCA may be done is above scenario?

EXPLANATION

VCA

Focus on values added
Remove Non value Added

To Achieve

Cost Leadership + Product Differentiations

VCA will help WSS to achieve above.
CONCLUSION

**Criticism**
- Not applicable to service industries like WSS.
- Ignores concept of value Networks.
- Time Consuming and expensive.

**Value Shop model**
- Mobilizes people, knowledge or money in correct manner.
- Focuses on problem finding & solution.
- Design to solve customer problems.
CASE STUDY - 04
PORTER’s 5 FORCES & TRANSFER PRICE

ISSUES
Combination of porters 5 forces within internal divisions & connection of transfer price.

CONCEPT
Competitive advantage depend on bargaining power of buyer and supplier. So, Internal transfer should always be @ fair price.

EXPLANATION + CONCLUSION
In effect, division concerned will be competing with one another like Buyer & Supplier during negotiation.
The Transfer Pricing agreed will effect the profitability of each of the divisions.
If bonuses are paid to managers as per divisional performance the Transfer Pricing will determine the level of bonus paid.
Then, managers may have personal interest in enduring negotiations that may destroy value in the company.
Accordingly the principle of Goal Congruence is very important in internal transfer pricing, so that it is a win-win situation for both the divisions and the company as a whole.
CASE STUDY - 05
BUSINESS EXCELLENCE MODEL
CLOTH LIMITED

ISSUES
Apparel company that manufacture and sells fashion clothing and accessories through 300 stores and wants to apply Business Excellence Model.

CONCEPT
Importance of Business Excellence
Achieve & Sustain
Fundamentals of EFQM

EXPLANATION
Business Excellence Models are tools that help companies develop Stakeholder focused strategy.

Quality Management Principles that
(a) Increase Efficiency (b) Minimize Waste
© Employee Loyalty (d) High Standards of Business.

8 Fundamental Concepts:
(1) Adding value to customers
Understand changing trends of fashion and customer taste.

(2) Create sustainable future
Society and Environment should be protected, like using less of leather for making clothes.
(3) Organizational capability
Track inventory on real time basis and stock-up quickly.

(4) Harnessing creativity & innovation
Continues improvement and bring value to the company.

(5) Leading with vision
Clear vision of leaders and management.

(6) Managing with Agility
Effectively respond to opportunities and threats, like developing a E-commerce Platform.

(7) Succeeding there talent of people
Culture of teamwork and reward recognitions.

(8) Sustain outstanding results
Constant and periodic evaluation.

CONCLUSION

EFQM Model Criteria

5 Enablers
• Leadership
• Strategy
• People
• Partnership Resources
• Processes

4 Results
• Customer
• People
• Society
• Business
CASE STUDY - 06
SUPPLY CHAIN MANAGEMENT
Sun Electronics (Ref. CROMA)

ISSUES

Manufacture and Sells Electronic goods there 30 stores in india.
- Stores have to order to centralized team once in a month.
- Time taken 30-40 days to deliver.
- Holding period very high @ 45 days as compared to 15 days.
- Stock outs/obsolete are general problems faced
- Planning to go online. (E-commerce)

CONCEPT

Implementation of Supply Chain Management System.
- SCM Process
- Benefits of SCM

EXPLANATION

SCM Process

- Plan
  Production based on demand

- Develop
  Proper supplier selection

- Make
  Manufacture

- Deliver
  Logistics & Timely Delivery
CONCLUSION

Benefits of SCM

- Customer Service
- Delivery Mechanism (Procurement)
- Reduced Inventory Holding Time
- Better Supplier Relationship
CASE STUDY - 07

KAIZEN COSTING

Zen Limited

ISSUES

Zen Ltd — Leading Mobile Manufacturing Company of the world.
- Fall in Net profit from 10% to 8%
- Increase in repair cost by 1.5 crores equal to 1% of total turnover.
- 200 Repair Centers and technician sends phone to central center at Mumbai.
- 3-4 Batches per day
- Phone repair are then sent back.

CONCEPT

Scope for Minor improvements
How can the Warranty Claim process be improved

EXPLANATION

Kaizen (Change for Better). Small and Continuous improvement across all functions and processes & employees
- Example- Toyota Production System.

- Eliminate waste in systems and processes through VCA
- Small incremental changes
- Save costs at all levels of supply chain
CONCLUSION

Implementation and Application

- Eliminate function not required
- Better way of doing things
- Focus on Quality
- Reduce Unnecessary Movement

- Close down Center’s not required
- Train local Staff for simple repairs
- Reduce Warranty Claims
- Reduce from 3-4 batches daily to 1 batch per day
CASE STUDY - 08
TOTAL PRODUCTIVE MAINTENANCE
Super Refineries Limited

ISSUES

Super Refineries: Oil Refining Company
- 40% share and 100% capacity
- Last 3 months:
  - 30% dispatches delayed
  - 20% rejection
Reason: Scheduled maintenance of machines not done leading to quality issues. Only TQM not being sufficient.

CONCEPT

Issues of Machinery Breakdown
- Features of TPM & comparison with TQM
- Types of Maintenance

EXPLANATION

Losses Due to Break-Down
- Equipment failure
- Idle waits & stoppage
- Interior quality products
- Additional set up costs

Features of TPM
- Zero Breakdown
- Zero Downtime
- Zero Failure
- Zero Loss of Efficiency
TOTAL PRODUCTIVE MAINTENANCE

CONCLUSION

8 Pillars of TPM

- Autonomous Maintenance
- Focused Improvement
- Planned Maintenance
- Early Equipment Maintenance
- Quality Maintenance
- Education & Training
- Office TPM
- Safety & Health

Types of Maintenance

- Breakdown No Maintenance
- Preventive Daily Maintenance
- Corrective Easy to clean and Maintain
- Maintenance prevention (Use of Technicians)
- Autonomous (Self Maintain)
(Video on youtube)

Refer Youtube Video
CASE STUDY - 10
ENVIRONMENTAL MANAGEMENT ACCOUNTING
Shandaar Bangle Ltd

ISSUES

Mfg process  >>>  Glass Melting   >>>  Parison Making   >>>>  Spiral

- Poor Environmental impact
- Bad conditions of workplace
- Management planning to take care of environment
- Plant trees, dust collector, noise absorbing device

CONCEPT

Environment Management A/c and quality costs
Analysis:  ABC,
          Life cycle
          Input output
          Non-financial Consideration

EXPLANATION

Concept of EMA

Analysis of Financial & Non Financial Information to Support Environment

Benefits
- Product Pricing
- Budgeting
- Investment Appraisal
- Environmental Performance Evaluation

CA Sankalp’s - CASE STUDY
Environmental Cost

- Prevention: Prevent Production of Waste
- Appraisal: Comply with Environment Standards
- Internal Failure: Production of Harmful Gases
- External Failure: Heavy Penalty

CONCLUSION

Techniques for Identification

- ABC
  - Number of Trees planted
  - Volume of Nitrogen oxide treated

- Life Cycle
  - RM: Some Natural Product Waste
  - Mfg: Other gases
  - Mktg: Transportation

- Input / Output
  - Allocate & Analyse environmental cost to Input & Output of Glass Bangles

Non-financial consideration

- Safety monitoring system
- Train workers
- Protective glasses/clothes / gloves
- Regular health check-ups
CASE STUDY - 11
ETHICAL & NON-FINANCIAL CONSIDERATIONS
STAR LIMITED

ISSUES

Business for Manufacturing & Sale of Copper Rods. Planning to set up its own Copper Wire Manufacturing plant.

Information

i) Initial Cost: 500 Crores (available)
ii) NPV: 200 Crores (Life 20 Years)
   IRR: 17.5%
iii) Immigrant Labourers- 70%
   Will be paid less wage than local workers
iv) Purchase of new land on forest resources are where no commercial activity is allowed.
v) Harmful waste is nearby river.

CONCEPT

List Non-financial & Ethical consideration in decision making impact of above and Recommendation.

EXPLANATION

Environment
Pollution, Deforestation, Greenhouse.

Staff Motivation
Should have a participative approach.

Government Regulations
Comply with Relevant laws Regulations

Availability of Resources & Project site.
CONCLUSION

Issues in Financial Study

**Payment To Labour & Ethics**
Pay same level of wages to avoid protests & strikes.

**Land & Bribe**
Construction on Forest land is unethical & can create poor reputation in market.

**Chemical Waste**
Act in socially responsible way. No discharge of harmful waste.
CASE STUDY - 12
BALANCE SCORE CARD
FAIR LIMITED

ISSUES

Manufactures & Sells Motor Vehicles
10,000 employees on PRP (Performance Related Pay)
2 lakh vehicles recalled on account of quality issues.
Recall on account of lower quality material to save cost on account of Performance Related Pay
Board concerned with Reputational risk.

CONCEPT

```
Concept
  Advantage & Disadvantages
    Financial measure
    Non financial Measure
      2 CSF’s
      2 KPI’s
```
EXPLANATION

Financial Measure

Advantage
1) Objective of wealth creation
2) Easy to compare
3) Measurable financial performance

Disadvantage
1) Ignores long term growth
2) Distorted by inflation
3) Easy to manipulate

Non-Financial Measure

Disadvantage
1) Highly subjective
2) Difficult to compare
   Not measurable

Advantage
1) Takes long term view
2) Qualitative aspect considered
3) Measures every area
CONCLUSION

Non-Financial Measure Balance Scorecard

- **Financial**
  - Focus Revenue, profit, cost control

- **Customer**
  - Customer satisfaction
  - On time delivery

- **Internal Business**
  - Business Systems

- **Training & Growth**
  - Technology and new stuffs

<table>
<thead>
<tr>
<th>Category</th>
<th>CSF</th>
<th>KPI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>Most profitable company</td>
<td>Revenue, profitability</td>
</tr>
<tr>
<td>Customer</td>
<td>No 1 choice</td>
<td>No. of vehicles sold</td>
</tr>
<tr>
<td>Internet Business</td>
<td>TQM</td>
<td>No. of defective cars produced</td>
</tr>
<tr>
<td>Training Development</td>
<td>Skill Development</td>
<td>Amount Spent on R &amp; D</td>
</tr>
</tbody>
</table>
CASE STUDY - 13
BUILDING BLOCK MODEL
Grab & Go.

ISSUES

Fast food joint of 5 partners known for good quality food and service.

General Points:
- People want healthy food with no compromise on taste or presentation.
- Online order taking system, so quick and correct order is delivered.
- Digital payment option.
- Grab & Go plan to introduce all above with an expansion strategy.
- Staff excited at the above opportunity.
- New menu by chef.

CONCEPT

Use BBM for Grab & Go.

BBM

STANDARDS

Ownership
At Branch level for Chefs and Manager

Achievability
Set Benchmarks/ Targets for Employees

Equity
Equally challenging for all.
Example: - Kitchen staff, Finance advertising
**EXPLANATION**

**Dimensions**

- **Determinants**
  - **Quality**
    - Internal checks and external certifications.
  - **Innovation**
    - New variants in the menu.
  - **Flexibility**
    - Hire staff quickly & cater to seasonal wages.
  - **Resource Utilization**
    - Table occupancy, wastage, zero errors & delays

- **Results**
  - **Financial Performance**:
    - Partnership firm with 5 partners
    - ROE-25%
    - No stake dilution
    - Profitability/Net profit/Operating Ratios.
  - **Competitive Performance**:
    - Grab & Go is unique in its segment, providing healthier food choices.

**CONCLUSION**

**Rewards**

- **Motivation**
  - Goal clarity and participation in target/benchmark for employees.
  - Bonus, overall compensation.
  - Cross training.

- **Clarity**
  - Inform what kind of performance will be rewarded

- **Controllability**
  - Rewards should be based on both financial & non-financial aspects.
ISSUES

• Business of Logistics & Distribution.
• Already implemented Balance score card and doing good in financial performance customer service and innovation.
• But company facing high employee turnover as no focus on employee development.
• Too much work pressure.
• Truck drivers are also on contractual basis, not entitled to retirement bonus or anything.

CONCEPT

Alternate Performance Measurement Mechanism
Performance Prism by Andy Neely & Chris Adams. Considers all stakeholders: like employees, suppliers, government, creditors etc.
EXPLANATION

5 Facets

- **Stakeholder Satisfaction**
  - Identify all stakeholders and determine its relative importance (Employee + Truck drivers).

- **Contribution**
  - Efficiency of employees
  - Productivity
  - On time Delivery

- **Strategy**
  - Wants & Needs of stakeholders must be satisfied (efficiency of truck drivers if they are on full time employment).

- **Processes**
  - Measures to evaluate each process of organization.

- **Capabilities**
  - Have proper Technologies & Infrastructure

All 5 Facets of Performance Prism are interlinked and must support each other.
CASE STUDY - 15
TRADITIONAL A/C FRAMEWORK

PSL (Paper Solutions Ltd.)

ISSUES
- Farmers get lively hood from tree plants
- 40% staff at local community
- Overall growth leading to sustainable business.

CONCEPT
Inform benefits of TBL report and how you can give back to the community.

EXPLANATION

Traditional Accounting:
Single bottom line (i.e. Net Profit) focus, calculated by reducing costs from revenues. So financial aspects are totally covered in Annual reports of the company. So emphasis is higher on monetary aspects. All 5 facts of PP are interlined and must support each other.

CONCLUSION

TBL Report (Triple Bottom Line)
S: Social (People)  E: Environment (Planet)  E: Economic (Profit)
- TBL focus on addressing now monetary interest of all stakeholders.
- Create sustainable initiatives that will be highly beneficial in the long run.
- Helps stakeholders make informed assessment of opportunities and risks that company faces.
- Overall business strategy should be linked to TBL reporting, and garner goodwill for the company.
CASE STUDY - 16
PERFORMANCE MEASUREMENT IS NPO SECTOR
Silver sands

CONCEPT
Silver sands® Caribbean sea has 2 beaches maintained by local government. Contractor appointed is involved in cleaning. Municipality works also involved in cleaning.

EXPLANATION
Performance Measurement

Economy
1) Cleaning expenses to contractor
2) Compared with budgets
3) Since actuals are more than budget, it is not economical

Efficiency
1) Check log records of workers
2) Resources like cleaning truck new utilized, time utilized in rocky part.
3) Mobile messaging system, how effective

Effectives
1) Impact of actual cleanliness
2) Safety kept @ beach
3) Customer satisfaction feedback
4) Check quality of waste collected

CONCLUSION
General guidelines

Objective of cleaning achieved?
Expenses should be within the budget
Also find alternate solutions of tackling the problem.
CASE STUDY - 17
COMPETITIVE ADVANTAGE AND CONTROL SYSTEM
Wings International Airline

ISSUES

Biggest Airline operator catering to premium segment travellers.
Liberal baggage allowance and best facilities in flight.

Entry of low cost carriers giving competition to wings international.
So wings international also reduced its price and hence few benefits taken away.
Price war started, however overheads and costs are also rising rapidly.
Over 5 years, no increase in any profit for wings international.
Hence wings international back to its original premium and full rates.

Government plans to built airports in small cities.
Wings international trying to utilize above plan by giving connectivity to travellers of small city.

CONCEPT

Evaluate for wings international

- Low cost strategy
- New strategy
- Future strategy
- Control strategy
Low cost strategy
Not a workable solution for wings International

- Price war was unviable
- Reducing last moment prices did not work in its favour
- Cost of operations like Fuel prices aircraft maintenance, overheads is rising

(ii) Differentiation Strategy
- Full service price, where high quality facilities are provided.
- Hub & Spoke Model “wings to fly anywhere, anytime”
- Dedicated customer service lines

(iii) Management control Report - Feed - Forward
- Plan and analyse the strategy before hand
- Should be dynamic
- Data on input variable should be collected regularly
- Estimate a systematic course of operations.

(iv) Management control - Feedback
- Disclose both accomplishment and Responsibility
- Prompt reporting. Wings international found it after 5 years
- Trends & relationship of travellers preference, deals offered, strategic partners
- Disclose variation from standards. Eg: 15 mins delay allowed. Check how many delayed beyond that
CASE STUDY - 18
BEYOND BUDGETING
Magical Stay

ISSUES

Hotel chain having properties in tourist destinations.
- Public listed company with goal of earning non profit of 1500 million with 10% increase.
- Annual Budget
  - Financial & Business team make policies.
  - Manager of each hotel Property given targets.
  - If target not achieved, property shut down.
  - Recently 7 out of 9 properties not performing.
- Few Suggestion
  a) Give discounts in off season.
  b) Purchase kitchen supplies locally.
  c) Reward & Recognition.
  d) Allow location Management autonomy.

Plans
Decentralize all teams targets for profit ratio and liquidity ratio.

CONCEPT

a) Traditional Budget process and its negative impact.
b) Growth based targets instead of budget based targets.
CONCLUSION

Traditional Budget Process
• Not Flexible in fast changing environment.
• Budget not based on external factors.
• Centralized decision making.
• Managers are more intent in meeting targets rather than focusing on business growth.

Growth Based
• Decentralized and Participative way of operating business.
• Management capable of quickly adopting to changing market scenario.
• High employee morale due to monthly rewards and recognition.
• Targets are based on performance are unbiased and focus on overall competitiveness within the industry.
**CASE STUDY - 19**

**CONTROL THROUGH STANDARD COSTING SYSTEM**

**Magical Stay**

**ISSUES**

HAL - manufacturer & retailer of AC catering to low to medium level groups.
- 20 Teams, 350 Days, Target of 350 ACs. Average Revenue/AC = Rs. 36000/-
- Payment of Bonus based on install in 1 Minor complaint and 10% of major complaint.

In 2016, HAL launched new AC summer cool for high level corporates.
Average Revenue= Rs 300,000.
7 Teams, 240 AC per annum.
No Bonus Element.
Company is in profits but very low.

**CONCEPT**

**Reason For Current System Failure**
- Current focus on limited 3 vacancies like material wage, price and manufacturing labour efficiency.
  Other variance should be equally focused on.
- Also proper product costing should be done for which no information is given.
- No CSF identified yet.
- Regular follow up for variances should be done.
EXPLANATION

4 CSF for HAL future

- **Install in Quality**
  Separate quality impact should be there for separate AC's.

- **Customer Satisfaction**
  After sales, proper installing

- **Brand Performance**
  Focus on both brands.
  Low segment: 250 million
  High segment: 500 million

- **Manufacturing Excellence**
  Focus on all aspects like innovation, labour turnover, technology.

CONCLUSION

**Standard Costing & Reporting System**
Current System may be abandoned, as only limited aspects are being monitored assurity.
- HAL may need to modify its remuneration arrangements.
- Report all KPI’s in real time.