

CA FINAL MAGIC MCQ

SC PM

SELF PACED ONLINE MODULE - SET B



A. ICAI all case scenario MCQ are covered

C. 1000 + MCQ Covered

B. Covers theory, practical applications, module MCQs

D. Guidance with helpful hints for approaching case scenarios.

CA SANKALP KANSTIYA



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INTRODUCTION TO STRATEGIC COST MANAGEMENT

CHAPTER 1

Question 1: Which of the following are the disadvantages of traditional cost management?

- i. It ignores competition, market growth and customer requirement.
- ii. Excessive focus on cost reduction, broad cost reduction leads to inferior quality
- iii. Relies only on financial data (historic in nature), hence dynamics of marketing and economics are ignored
- iv. Reactive in approach, it serves a corrective function instead of preventive function

A i,ii and iv

B i and ii only

C ii and iii only

D All of the above

Question 2: Out of followings which are the aspects that Traditional Cost Management failed to address -

- i. Use-case of cost information
- ii. Activity Based Costing
- iii. Qualitative aspects of cost management

A i and ii only

B i and iii only

C ii and iii only

D All of i,ii and iii

Question 3: A Business model should contain which three components out of those stated below -

- i. Customer value proposition
- ii. Profit formula
- iii. Impact factor
- iv. Key resources and processes

A i,ii and iii only

B i, ii and iv only

C i, iii and iv only

D ii, iii and iv only

Question 4: John W. Fabrics is considering the decisions regarding segmentation. Management Accountant raised and said it was acknowledged that managerial discretion and judgment determine which markets are selected and targeted and which others are ignored. In order for market segmentation to be effective, all segments must be -

- A Distinct, Artistic, Measurable and Profitable
- B Distinct, Accessible, Measurable and Profitable
- C Desperate, Accessible, Many, and Profitable
- D Distinct, Accessible, Measurable and Popular

Question 5: Technological advancement, especially digital technologies has capability to change business model in addition substantial bearing on cost. Correctly match the items of following sets i.e., technological advancement and scope thereof-

| | |
|---------------------|---|
| i. Automation | A. Using technology to perform new task or process |
| ii. Extension | B. Use of technology that revamp the products and services in addition to its process and culture |
| iii. Transformation | C. Replacement of humans with technology |
| iv. Revolution | D. Use of new technology that revamp the products and services in addition to its process and culture |

- A i-C, ii-A, iii-D, and iv-B
- B i-C,ii-A,iii-B, and iv-D
- C i-B,ii-A,iii-D, and iv-C
- D i-B,ii-D,iii-A, and iv-C

Question 6: XYZ Hospitals of emerged as Europe's forecast integrated healthcare services provider and has a robust presence across the healthcare ecosystem. Which one of the following is more likely to relate to XYZ's Value Statement?

- A to bring healthcare of international standards within the reach of every individual
- B Be the global leader in cutting-edge Robotic Surgery
- C Develop innovative programs and services to meet the unique needs of patients
- D Practice the safest, most equitable and effective medical care

Question 7: To cope with hyper competition, companies need to develop which of the following-

- i. Speed and flexibility in strategic decision making
- ii. Creating sustainable competitive advantage
- iii. Making unexpected decisions that were not anticipated by the market
- iv. Shift the rules of the market by making fundamental changes to its working

A i and ii

B i and iii

C i,ii and iii

D i,iii and iv

Question 8: Which of the following is not a part of the customer segment profile that is done as part of the value proposition canvas-

A Customer Jobs

B Customer Profitability

C Customer Pains

D Customer Gains

Question 9: Out of following statements which are correctly depicts the features of Strategic Cost Management (SCM)-

- i. SCM is use-case of cost information for decision making
- ii. SCM is reactive approach
- iii. Scope of SCM is wide enough to allow it to emphasis on product differentiation apart from cost containment

A i and ii only

B i and iii only

C ii and iii only

D All of i, ii and iii

Question 10: Strategic Cost management (SCM) is the implementation of cost management techniques to sustain and improve the company's strategic position as well as reduce costs. The three important pillars of SCM are -

A Strategic positioning, value chain analysis and business environment analysis

B Cost driver analysis, strategic positioning and value chain analysis

C Value chain analysis, strategic positioning and performance analysis

D Strategic Positioning, value proposition analysis and business environment analysis

Question 11: Modern Furniture Limited (MFL) is considering the need, resource outlay and expected benefit to draw the value proposition canvas for its business. Since MFL is already using business model canvas hence the proposer try to convince the board by emphasis that the value proposition canvas is To the business model canvas.

A Substitute

B Extension

C Plugin

D New Version

Question 12: A product that holds high market share in a market experiencing high rates of growth would be considered what type of product according to the BCG matrix?

A Star

B Cash Cow

C Dog

D Question mark

Question 13: Correctly match the items of following sets i.e. evolution of cost and objective thereof -

| | |
|----------------------------------|---------------------------------|
| i. Cost Ascertainment | A. Cost Reduction |
| ii. Cost Control | B. Recording of Cost |
| iii. Traditional cost management | C. Aligning costs to strategies |
| iv. Strategic Cost Management | D. Containment of Cost |

A i-A, ii-B, iii-C, and iv-D

B i-C, ii-A, iii-B, and iv-D

C i-B, ii-A, iii-D, and iv-C

D i-B, ii-D, iii-A, and iv-C

Question 14: Out of followings which are the correct statements above Osterwalder's Business Model Canvas-

- i. Business's value propositions shall be oriented to the capabilities of business
- ii. Key activities are critical for absorbing the cost of supporting activities.
- iii. Key resources has implication in determining activity level

A i and ii only

B i and iii only

C ii and iii only

D All of i, ii and iii

Question 15: Value Proposition canvas is based on which of the following elements of the business model canvas?

A Customer Segment, Key Activities

B Value Proposition, Cost Structure

PRACTICAL SUMS

Illustration 1

Livewell Limited is a manufacturing company that produces a wide range of consumer products for home consumption. Among the popular products are its energy efficient and environment friendly LED lamps. The company has a quality control department that monitors the quality of production.

As per the recent cost of poor quality report, the current rejection rate for LED lamps is 5% of units input. 5,000 units of input go through the process each day. Each unit that is rejected results in a Rs.200 loss to the company. The quality control department has proposed few changes to the inspection process that would enable early detection of defects. This would reduce the overall rejection rate from 5% to 3% of units input. The improved inspection process would cost the company Rs.15,000 each day.

Required

- (i) ANALYSE the proposal and suggest if it would be beneficial for the company to implement it.
- (ii) After implementation, ANALYSE the maximum rejection rate beyond which the proposal ceases to be beneficial?

Solution

(i) Analysis of the proposal to make changes to the inspection process:

The company wants to reduce the cost of poor quality on account of rejected items from the process. The current rejection rate is 5% that is proposed to be improved to 3% of units input.

The expected benefit to the company can be worked out as follows:

The units of input each day = 5,000. At the current rate of 5%, 250 units of input are rejected each day. It is proposed to reduce rejection rate to 3%, that is 150 units of input rejected each day. Therefore, improvements to the inspection process would reduce the number of units rejected by 100 units each day. The resultant cost of poor quality would reduce by Rs.20,000 each day (100 units of input × Rs.200 cost of one rejected unit).

The cost of implementing these additional controls to the inspection process would be Rs.15,000 each day.

The net benefit to the company on implementing the proposal would be Rs.5,000 each day. Therefore, the company should implement the proposal.

(ii) Analysis of maximum rejection rate beyond which the proposal ceases to be beneficial

The cost of improving controls to the inspection process is Rs.15,000 each day. The number of units of input processed each day is 5,000. The cost of rejection is Rs.200 per unit.

It makes sense to implement the improvements to controls only if the benefit is greater than the cost involved. To find out the point where the benefits equal the cost, solve the following equation.

Let the number of reductions in rejections each day due to improved controls be R.

At Rs.200 per unit, benefits from reduction in rejection would be $\text{Rs.}200 \times R$.

At what point, would this be equal to the cost of control of Rs.15,000 per day?

Solving $\text{Rs.}200 \times R = \text{Rs.}15,000$; $R = 75$ units. That is if the improvements to inspection process control reduces the number of rejections by 75 units each day, the benefit to the company would be Rs.15,000 each day.

That is if the rejection rate improves by 1.5% (75 units / 5,000 units) then the benefits accruing to the company will equal the cost incurred.

In other words, when the rejection rate is 3.5% (current rate 5% - improvement of 1.5% to the rate) or below, the proposal will be beneficial. In this range, the savings to the cost of poor quality will be more than the cost involved. For example, as explained above, when the improved rejection rate is 3%, the net benefit to the company is Rs.5,000 each day.

Beyond 3.5% rejection rate, the proposal will result in savings to the cost of poor quality that is less than the cost involved of Rs.15,000 each day.

Illustration 2

JK Ltd. produces and sells a single product. Presently the company is having its quality control system in a small way at an annual external failure and internal failure costs of Rs. 4,40,000 and Rs. 8,50,000 respectively. As the company is not able to ensure supply of good quality products upto the expectations of its customers and wants to manage competition to retain market share considers an alternative quality control system. It is expected that the implementation of the system annually will lead to a prevention cost of Rs. 5,60,000 and an appraisal cost of Rs. 70,000. The external and internal failure costs will reduce by Rs.

1,00,000 and Rs. 4,10,000 respectively in the new system. All other activities and costs will remain unchanged.

Required

- (i) EXAMINE the new quality control proposal and recommend the acceptance or otherwise of the proposal both from financial and non-financial perspectives.
- (ii) What is your ADVICE to the company, if the company wants to achieve zero defect through a continuous quality improvement programme?
- (iii) SUGGEST a suitable quality control level at a minimum cost.

Solution

- (i) Implementation of new system will reduce costs of the non - conformance (internal and external failure) by Rs.5,10,000 (-40%). However, this will also increase costs of conformance by Rs.6,30,000. There is inverse relationship between the costs of the conformance and the costs of non-conformance. JK Ltd. should try to avoid costs of non-conformance because both internal and external failure affect customer's satisfaction and organisations profitability. The company should focus on preventing the error such that it ensures that product is of good quality when it reaches the customer at the very first instance. This enhances the customer experience and therefore eliminating the scope for external failures like sales returns and warranty claims. Better quality can yield further sales. Therefore, an increase in spending on quality measures is justified since it not only yields significant improvements to quality but also brings in more sales orders. Accordingly, from the financial perspective point of view the new proposal for quality control should not be accepted as it will lead to an additional cost of Rs.1,20,000 (Rs.6,30,000 - Rs.5,10,000). However, from non-financial perspective point of view as stated above the company should accept the new proposal.
- (ii) It is possible to increase quality while at the same time reducing both conformance and non-conformance costs if a programme of aiming for zero defect/ and or continuous improvement is followed. Zero defect advocates continuous improvement. To implement this elimination of all forms of waste, including reworks, yield losses, unproductive time, over-design, inventory, idle facilities, safety accidents, etc. is necessary.
- (iii) To achieve 0% defects, costs of conformance must be high. As a greater proportion of defects are accepted, however, these costs can be reduced. At a level of 0% defects, cost of non-conformance should be nil but these will increase as the accepted level of defects rises. There should therefore be an acceptable level of defects at which the total costs of quality are at a minimum.

Illustration 3

Cineworld is a movie theatre located in a town with many colleges and universities around it. The town has a substantial student population, most of whom are avid movie goers. Business for Cineworld has been slow in the recent years due to the advent of streaming websites, that show the latest and popular movies online. However, the management of Cineworld continue to feel students would still enjoy the watching movies on bigscreen, along with the facilities and ambience that only a movie theatre can offer. Accordingly, they have framed a plan to attract students by offering discounts on movie tickets.

The average time a student spends at the college or university is 4 years, which is the average duration of any course. For a nominal one-time subscription fee, Cineworld plans to offer students discounts on movie tickets for a period of 4 years. By attracting more footfalls, Cineworld targets to cross sell it food & beverages and souvenirs. This would help it sustain a reasonable revenue each year.

Cineworld would attract attention to the plan by initially offering free tickets, food and beverage and gift vouchers. This one-time initial expense, net of the one-time subscription fee collected, would cost Rs. 5,000 per student. On subscription to the plan, the viewership and purchases of each student is expected to be as follows:

| Particulars | Years 1 & 2 | Years 3 & 4 |
|---|-------------|-------------|
| Spend on movie tickets per year | 2,000 | 1,500 |
| Spend on food and beverage per year | 4,000 | 3,000 |
| Spend on souvenirs and accessories per year | 2,250 | 750 |

Assumptions

1. Only 50% of the subscribers are expected to visit the theatres in years 3 and 4.
2. Across all years, only 75% of the subscribers who visit the theatre are expected to buy food and beverage.
3. Only 25% of the subscribers who visit are expected to buy souvenirs in years 1 and 2, and 10% of them in years 3 and 4.

Given that PVIFA of Rs. 1 for 4 years at 10% = 3.169 and PVIFA of Rs. 1 for 2 years at 10% = 1.735.

Required

CALCULATE the customer lifetime value per subscriber for the above plan.

Solution

CA FINAL SCMPE RANKERS LIST NOV' 23

ALL INDIA RANK
01



CA MADHUR JAIN




SCMPE
CA, CS SANKALP KANSTIYA

ALL INDIA RANK
05



CA LISA AGARWAL

ALL INDIA RANK
07



CA PRAKHAR LADDDHA

ALL INDIA RANK
10



CA ANSHUL SINGHAL

ALL INDIA RANK
10



CA RONAK JAIN

ALL INDIA RANK
11



CA LISA AGARWAL

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15



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16



CA ADITYA LAKHOTIA

ALL INDIA RANK
18



CA BISWAJIT DAS

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20



CA MRIDULA SUBHRAMANYAM

ALL INDIA RANK
24



CA GOVIND JAKHOTIA

ALL INDIA RANK
26



CA SHIVANI RAICHURA

ALL INDIA RANK
27



CA ISHA DELIWALA

ALL INDIA RANK
30



CA ANKIT BANSAL

ALL INDIA RANK
31



CA BHAVIN SHAH

ALL INDIA RANK
32



CA MANSI GUPTA

ALL INDIA RANK
35



CA SNEHIL JAIN

ALL INDIA RANK
41



CA ARHAM MEHTA

ALL INDIA RANK
42



CA AKSHIT AGARWAL

ALL INDIA RANK
46



CA VISHAL MALARA

ALL INDIA RANK
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CA UJWAL VAKHARIA

ALL INDIA RANK
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CA LISA AGARWAL

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CA SHRUTI GUPTA

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