**NMIMS**

**Strategic Cost Management**

**Internal Assignment for June 2020 Examination**

**1. A company has a contribution/sales ratio of 50%. It maintains a MOS of 25%. If its annual fixed cost is Rs. 50 lakhs, calculate:**

**BE sales, MOS, Total Sales, Total Variable Cost and Profit**

**Answer**: Break even sales = Fixed cost/P/v Ratio

= 5000000/50%

= 10000000

Total sales = Break even sales + Marin of safety

Margin of Safety = Actual Sales – Break-Even Sales

**2. The following information is available from the records of Alpha Ltd. For the year 2019:**

**You are required to prepare a master budget.**

**Rs.**

**Sales of product A 25.0 Lakhs**

**Sales of product B 75.0 Lakhs**

**Material cost 55% of sales**

**Direct wages 50,000 per month per worker**

**Factory Overheads:**

**Indirect Labour:**

**Works Manager 10,000.0 per month**

**Foreman 5,000.0 per month**

**Stores and spares 5.0% of sales**

**Depreciation of machinery 1,50,000.0**

**Light and power 1,00,000.0**

**Repairs and maintenance 1,50,000.0**

**Other expenses 15% of direct wages**

**Administration expenses 2,00,000.0 per annum**

**Answer**: **Master budget for the year ending……..**

**Sales (as per sales budget)**

Sales of product A 2500000

Sales of product B 7500000

 10000000

Less: cost of production

Direct material 5500000

Direct wages 600000

Prime

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**3. You are a consultant hired to advise ABC Limited on ROI and help with decision making for additional order. The company has provided you following information:**

**The amount of division investment is Rs. 15,00,000 and the target rate of return on investment is 20%**

**Particulars Amount (Rs.)**

**Sales (2,00,000 units at Rs. 20) 4,000,000**

**Less: Variable costs @ Rs. 15 per unit 3,000,000**

**Contribution Margin 1,000,000**

**Less: Fixed costs 750,000**

**Division Profit 250,000**

**Factory Overheads:**

**a. Based on the information provided calculate ROI and Residual income of ABC Limited**

**b. Assume that division has offer to sell 50,000 units at Rs. 25 per unit. If additional order is accepted, the variable cost per unit will remain the same. However, fixed costs would increase by Rs. 250,000. A further additional investment of Rs. 10,00,000 would also be required. Analyze the impact on residual income.**

**Answer**: a) ROI = 250000 \*100

 1500000

= 16.7%