**Strategic Cost Management**

**April 2022 Examination**

**Q1. Mr. Manish comes to know about the need of analyzing the financial statements. He is keen to know about the concept of ratio analysis from you as a business consultant. Discuss about the term ratio analysis.**

**State all the ratios under inter-statement ratios analysis,**

**Describe any of the four ratios relevant with inter-statement ratios (10 Marks)**

**Ans 1.**

**Introduction:**

**Ratio Analysis:** A ratio is a numerical value obtained by dividing one number by another. A ratio is provided as a fraction or quantity of instances one range is a part of another. Ratio evaluation evaluates the agency's liquidity, solvency, and debt- stage. Liquidity refers back to the corporation's potential to pay its short-term debt, whereas solvency is its capacity to meet its long-time period liabilities. But, conducting a ratio analysis may not be viable without the supply

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**Q2. Armani Brothers received an order of supplying 100 mattresses, on a monthly basis to one of their client located in the Mumbai Suburbs. An additional equipment of Rs100000 will be required for executing the order.**

|  |
| --- |
| **The cost details in relation to the order is as under** |
| **Consumables 120 kgs @Rs 600 per kg** |
| **Thread and glue Rs100 per mattresses** |
| **Packaging cost Rs250 per piece** |
| **Labour hours –**  **100 hours of which 2o hours paid as overtime** |
| **Labour rate Rs 100per hour** |
| **Overtime is paid at the double of the rates** |
| **Overhead paid for the month Rs20000** |
| **Selling and distribution expenses Rs15500 per month** |

**The manager of the firm mentioned that the firm will, need additional working capital to the extent of 70% of the sales amount to be realized by selling the 100 mattresses**

**The management is looking forward to earn an expected return of 25% on the additional capital required for accepting the order. Prepare a cost estimate and indicate the price to be quoted to the customer (10 Marks)**

**Ans 2:**

**Introduction:**

The primary goal of cost accounting is to properly ascertain the price of a cost item which may be a product, a provider, or both. The ascertainment of value requires the collection of different charges arrangement of all the prices accrued for a given quantity or duration in a price sheet to decide the total and unit cost of the price item. A cost sheet estimates various costs to be incurred on a given task. The predicted income to be derived from the job is introduced to the overall cost to decide the selling rate of the product. This approach of figuring out the product's fee and the

**Q3a. You being the manager of Amol Manufacturing P Ltd wants to implement costing system in the proposed manufacturing unit to be located at Silvassa. You are concerned about which of the two methods - traditional costing and ABC System, to be employed.**

**These two methods are different when it comes to allocation process, cost objects and so on. You would like to understand the points of difference between traditional costing and ABC System from Mr Mehta your professional colleague so that you can decide effectively.**

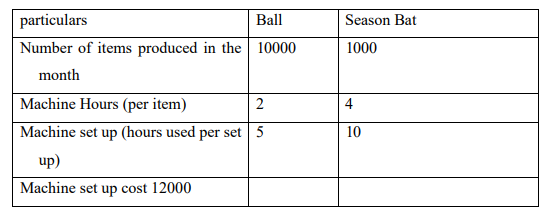
**Mr Mehta covered five major points of discussion on this. Discuss what you recollect as difference between the two systems ( 5 Marks)**

**Ans 3a.**

**Introduction:**

The traditional costing approach is likewise known as the conventional approach of costing, in different words. The fixed costs are assigned or allocated to the product based on the volume of this method. For instance, the range of devices produced or manufactured, the wide variety of direct labor hours, etc.

**Q3.b. Following is the data available for one of the existing manufacturing unit, located at Surat. Allocated the overhead cost under the ABC system and discuss the steps for allocation of such overhead cost**

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**Ans 3b.**

**Introduction:**

Activity-based costing is a costing method used to determine the product's price by identifying the exceptional sports being accomplished within the organization and then assigning the price of each activity recognized to the goods and services based on their actual consumption of them.