**Strategic Cost Management**

**September 2022 Examination**

**Q1. You are running an ice cream parlour. The ice cream is manufactured in house and is served to the customers at the outlet. You want to improve the customer service and customer satisfaction near to perfection. Your consultant advised to adopt Six Sigma to drive process improvement.**

**Discuss the concept, its three critical success factors and relevant break through strategies of six sigma philosophy (10 Marks)**

**Ans 1.**

**Introduction**

The 8 Steps to Strategic Success, by Gerben Van Den Berg and Paul Pietersma, is a classic that discusses these issues and the processes for a contemporary strategic approach. The book focuses on harnessing the power of engagement with customers, suppliers, employees, partners, shareholders, competitors, and government institutions to determine your organization's overall strategic direction.

**Three critical success factors**

Strategic planning, argue Van Den Berg and Pietersma, can no longer be a once-a-year, fixed affair. The rate at which markets shift today necessitates swift course corrections from

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**Q2. The cost of an article at the capacity level of 5000units is given as under.**

**For the variation in 25% in the capacity above or below this, the individual expenses vary as mentioned in the column C**

**Prepare the production cost budget at 4000 units and 6000 units (10 Marks)**

|  |  |  |
| --- | --- | --- |
|  | **Amount in Rs** | **C (%)** |
| **Material cost** | **250000** | **100 %variable** |
| **Labour cost** | **150000** | **100% variable** |
| **Power** | **12500** | **80% semi variable** |
| **Repairs** | **20000** | **75% semi variable** |
| **stores** | **10000** | **100%variable** |

**Ans 2.**

**Introduction**

In managerial accounting, the phrase "product cost" refers to the whole production cost that is incurred in order to make products or provide services. This might include both direct and indirect costs. The management is able to set the price of the product more effectively in order to achieve the targeted level of profitability when they have an accurate understanding of the cost of production. The formula for determining the cost of the product can be calculated by adding the direct costs of the material, the direct costs of the labor, and the manufacturing overhead costs. In mathematical terms, this would look like this

**Q 3.AMBER Ltd manufactures and sells four types of tyres namely, Small, medium, Large and XL.**

**The sales mix in values comprises 33.33%, 41.67%,16.67% and 8.33%for the all four products. The total budgeted sales (100%)are Rs60000 per month.**

**The associated variable cost as a percent of selling value is as under- Product- Small 60%, medium 68%, Large 80% and XL40%**

**The fixed cost per month is Rs1500**

**a. Define the term PV Ratio and Calculate the PV Ratio for all the four products (5 Marks)**

**Ans 3a.**

**Introduction**

The pace at which a company's profits shift in response to shifts in the volume of sales can be quantified using a metric known as the Profit Volume (P/V) Ratio. When calculating profitability, it is one of the most significant ratios to look at because it shows how much contribution was earned in relation to sales. After assessing the fixed cost and the variable cost

**Q3b. Calculate the Breakeven sales and for the BEP sales, indicate the fixed cost, variable cost total cost and total sales revenue (5 Marks)**

**Ans 3b.**

**Introduction**

A company has reached the break-even point in its sales when the sum of its total sales is equal to the sum of its total costs, and the company is not making a profit or a loss at that particular point in its sales. When the company's sales reach a level higher than its breakeven point, it will