**Strategic Cost Management**

**JUNE 2023**

**1) The following information is available for a watch showroom. Calculate the following: (10marks)**

**a) Contribution**

**b) PV Ratio**

**c) BE Ratio (in no. of units and value)**

**d) MOS at actual sales of Rs. 6,00,000/-**

**e) Number of watches to be sold to get a profit of Rs. 20,000/-**

|  |  |  |
| --- | --- | --- |
| **Sale Price** | **Per unit (Rs.)** | **9800** |
| **Variable Costs** | **Per unit (Rs.)** | **4905** |
| **Commission (variable)** | **Per unit (Rs.)** | **500** |
| **Rent** | **Per month (Rs.)** | **100000** |
| **Salaries** | **Per Month (Rs.)** | **120000** |

**Answer:**

**Introduction**

In this section of the financial analysis, we will be calculating several different financial ratios and measurements for a watch showroom based on the information that has been provided. With the help of these calculations, we will have a better understanding of the contribution, profitability, and break-even point of the firm. In addition, we will gain insight into the margin of safety and the number of units required to accomplish a particular profit target.

a) Contribution: It is only half solved

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**2) A Factory produces 3 types of shoes. While producing, for switching over from one type to another, there is a shift-over process involved. Costs incurred are as follows:**

**Shift-over costs Rs. 50,000**

**Factory Overheads Rs. 1,00,000/-**

**Packing costs Rs. 20,000/-**

**Engineering Costs Rs. 30,000/-**

**Supervisor Costs Rs. 10,000/-**

**Quantity produced A- 1000, B – 2000, C- 4000**

**Allocate the costs to the 3 shoes (A, B and C) using Traditional Costing method and Activity Based Costing. Some other information of the 3 products is as under:**

**A B C**

|  |  |  |  |
| --- | --- | --- | --- |
| **No. of Switches** | **3** | **4** | **2** |
| **Machine Hours** | **20** | **18** | **15** |
| **No. of Receipts / packs** | **4** | **5** | **8** |
| **Engineering Hours** | **30** | **40** | **50** |
| **Supervisor Hours spent** | **10** | **12** | **10** |

**Compare the results and discuss.**

**Answer:**

**Introduction**

This cost allocation analysis will use both traditional costing and activity-based costing (ABC) techniques to determine how much it costs to make three distinct styles of shoes. There are many costs associated with running a factory, such as shift changes, utilities, packaging, engineering, and payroll for

**3) a) Prepare a Cash Budget with following information.**

|  |  |  |
| --- | --- | --- |
| **Diary** | **Notebook** | **Spiral Bound** |

|  |  |  |  |
| --- | --- | --- | --- |
| **Sales Units** | **8750** | **12500** | **5000** |
| **Selling Price (per Unit)** | **80** | **64** | **100** |
| **Variable Cost ( per Unit)** | **20** | **23** | **35** |
| **Fixed Cost** | **65000** | **140000** | **95000** |
| **Allocation of General Overhead** | **280000** | **320000** | **200000** |

**b) A firm faces a decision about replacement of a machine.**

**Following is the information available:**

**1. Depreciation of existing machine is Rs. 25000/- p.a.**

**2. A new machine is available at Rs. 45000/- that is much more efficient in production.**

**3. Increase in power cost due to the new machine is Rs. 5000/- p.a.**

**4. Rent of the factory building is Rs. 60000/- p.a.**

**5. Scrap Value of the old machine is Rs. 4000/-**

**Identify which of the above information is relevant and which is not relevant for taking the decision whether to continue with the existing machine or use new one.**

**Answer 3a**

**Introduction**

The purpose of a cash budget is to help businesses plan for and control their cash inflows and outflows over a given time period. By factoring in things like units sold, selling price, variable costs, fixed costs, and overhead, it paints a clear picture of the expected cash position. In this case, we are to use the provided data to create a cash budget for three different products: a diary, a notebook, and a spiral bound book.

**Cash Budget:**

Based on the