**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