**Strategic Cost Management**

**December 2023 Examination**

**I. Shubham Limited is in the business of Fashion Designing. It has received an order to deliver 25,000 jackets custom made for ABC Ltd. The cost estimates for producing the jackets is as under:**

**a) Cloth 2500 reams of cloth@ Rs. 4000/- per ream**

**b) Threads and other decoration total Rs. 12,50,000•**

**c) Labour rate Rs. 500 per hour. Total hours required is 5000 hours**

**d) Factory overheads Rs. 8,00,000/•**

**e) Selling expenses (including delivery charges) Rs. 75,000/•**

**Quote a price per jacket on the following basis:**

**I. Cost Plus 10% margin on cost**

**2. Variable cost + 20% margin**

**3. Target profit of Rs. 200 per jacket. Calculate the PV Ratio at that price.**

**4. Shubham Limited has a good brand following and people arc willing to give up to Rs. 2500 per jacket. Shubham prices it at Rs. 2400 per jacket. What is this strategy called? (10 Marks)**

**Ans 1.**

**Introduction**

Strategic cost management is a comprehensive approach that businesses employ to align their operations with their financial goals. In the ever-evolving world of fashion designing, where trends change rapidly, and customer preferences are dynamic, managing costs efficiently becomes paramount. Shubham Limited, a renowned name in the fashion designing industry, exemplifies the application of strategic cost management. With a significant order from ABC Ltd. to deliver 25,000 custom-made jackets, Shubham Limited faces the challenge of pricing the jackets in a manner that not only covers the production costs but also ensures profitability. The cost components include cloth It is only half solved

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**2. M/s Priya Industries is in the business ofmanufacturing and selling lubricants. There arc 4 types of products. The information available about each:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Pl** | **P2** | **P3** | **P4** | **Total** |
| **No. of units produced** | **1300** | **2000** | **1500** | **1200** | **6000** |
| **Labour Hours** | **250** | **350** | **200** | **200** | **1000** |
| **No. of units I packet** | **2** | ***5*** | **3** | **3** | **13** |
| **Machine Hours** | **260** | **450** | **360** | **180** | **1250** |

**The total cost incurred is as under:**

|  |  |
| --- | --- |
| **Fixed Costs** | **Rs.** |
| **Salaries and Wages** | **2500000** |
| **Supervisor Cost** | **75000** |
| **Factory Overheads** | **1000000** |
| **Packaging costs** | **600000** |
| **Total Costs** | **4175000** |

**It is assumed that the supervisor spends time in proportion of no.of units produced.**

**Calculate the cost of each unit of the products under:**

**a) Traditional Costing**

**b) ABC Costing (10 Marks)**

**Ans 2.**

**Introduction**

Costing methods are fundamental to the financial health and strategic direction of a business. They provide insights into how resources are consumed and help in determining the price of a product. M/s Priya Industries, a manufacturer and seller of lubricants, offers a diverse range of products, each with its unique production requirements. The challenge lies in accurately allocating costs to each product to ensure profitability and competitive pricing. Traditional costing and Activity-Based Costing (ABC) are two prominent methods used in the industry. While traditional costing allocates overheads based on a single cost driver, ABC uses multiple cost drivers, providing a more detailed and accurate cost allocation. The choice between these methods can significantly impact the perceived profitability

**Q3.**

**a) With the following information, prepare the Budgeted Profit for the year for Company XYZ. (5 marks)**

**4 products (P.Q. R & S) are produced by XYZ Ltd. The labour costs are at Rs. 10 per hour of work. Raw Material used for all products is similar at Rs. 25 per kg. Factory Rent is Rs. 1,00,000 and other Overheads are at Rs. 20,000/-. Prepare a Budgeted Profit and Loss Statement for XYZ Ltd.**

**Other information is as under:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **UoM** | **p** | **Q** | **R** | **S** |
| **No. of Units** | **Nos.** | **50** | **45** | **80** | **90** |
| **produced** | **Rs. Per Unit** | **700** | **700** | **900** | **950** |
| **Labour Hours** | **Hrs. per unit** | **10** | **12** | **8** | **4** |
| **Raw Material** | **Kgs. per unit** | **6** | ***5*** | **10** | **12** |

**Ans 3a.**

**Introduction**

Budgeting is a cornerstone of financial planning, allowing businesses to forecast their financial performance and make informed decisions. For manufacturing entities like Company XYZ, preparing a Budgeted Profit and Loss Statement is crucial to understand the expected profitability of their products. By considering various cost components such as labor, raw