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PAPER 16 – Strategic Cost Management

PREVIOUS YEAR – Theory Questions

(June 23 – June 26)

Question 1

"Business Process Re-engineering involves the radical redesign of core business processes to achieve dramatic improvements in productivity, cycle times and quality." In this context, state what are the characteristics and principles of Business Process Re-engineering.

(June 23)

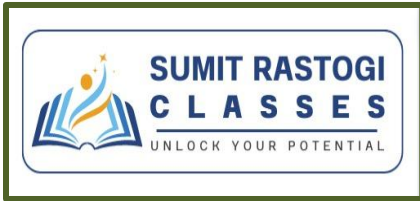
Answer 1

Characteristics and Principles of Re-engineering Process are enumerated below:

1. Several jobs are combined into one
2. Often workers make decisions
3. The steps in the process are performed In a logical order
4. Work is performed, where it makes most sense
5. Quality is built in.
6. Manager provides a single point of contact
7. Centralized and decentralized operations are combined.

Seven Principles of BPR:

1. Processes should be designed to achieve the desired outcome rather than focusing on existing tasks.
2. Personnel who use the output from a process should perform the process.
3. Information processing should be included in the work which produces the information.
4. Geographically dispersed resources should be treated as if they are centralized.
5. Parallel activities should be linked rather than integrated
6. Doers should be allowed to be self-managing
7. Information should be captured once at source.



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Question 2

Summarize the essential steps to be taken in the implementation of Total Quantity Management (TQM). (June 23)

Answer 2

The essential steps to be taken in the implementation of Total Quality Management are summarized below:

Step 1: Identification of customers / customer groups:

Through a team approach (a technique called Multi-Voting), the Firm should identify major customer groups. This helps in generating priorities in the identification of customers and critical issues in the provision of decision-support information.

Step 2: Identifying customer expectations:

Once the major customer groups are identified, their expectations are listed. The question to be answered is What does the customer expect from the Firm?

Step 3: Identifying customer decision-making requirements and product utilities:

By identifying the need to stay close to the customers and follow their suggestions, a decision support system can be developed, incorporating both financial and non-financial and non-financial information, which seeks to satisfy user requirements.

Step 4: Identifying perceived problems in decision-making process and product utilities:

Using participative processes such as brainstorming and multi-voting, the Firm seeks to list its perception of problem areas and shortcomings in meeting customer requirements.

Question 3

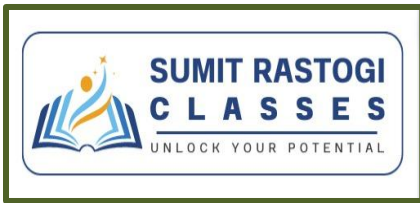
(i) What do you mean by Business Intelligence (BI) software?

(ii) Discuss in brief what are the features of R Programming Language.

(June 23)

Answer 3

(i) Business Intelligence (BI) Software is a set of business analytics solutions used by companies to retrieve, analyze and transform data into useful business insights usually within easy-to-read visualization like charts, graphs and dashboards. Examples of the best BI Tools include data visualization, data warehouses, interactive dashboards and BI reporting tools. A BI Solution pulls internal data produced by a company, into an Analytics platform for deep insights as to how different parts of a business affect one another. BI software interprets a sea of quantifiable customer and Business actions and queries based on patterns in the data.



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(ii) Features of R Programming language are stated below:

1. Statistical features of R:

- Basic Statistics Most common terms of basic statistics are Mean, Median and Mode which are the Measures of Central Tendency for a dataset. These can be very easily computed using R.
- Statie Graphics R is rich in facilities for creating and developing interesting Static Graphics. R contains functionality for many plot types including graphic maps, mosaic plots, bi-plots and the list go on.
- Probability Distributions Probability Distributions play vital role in statistics. By using various types of problems related to probability distributions (such as Binomial Distribution. Normal Distribution, Student's Distribution, Chi Square Distribution etc.) can be handled very easily.
- Data Analysis It provides a large, coherent and integrated collection of tools for data analysis.

2. Programming features of R:-

- R Packages One of the major features of R is the fact that it has wide availability of libraries. R has CRAN (Comprehensive R Archive Network) which is repository holding more than 10.000 packages.
- Distributed Computing - Distributed computing is a model in which components of a software system are shared among multiple computers to improve efficiency and performance. Packages like ddR and multidplyr are used for distributed programming in R.

Question 4

Write a short note on Six Sigma in quality control process.

(June 23)

Answer 4

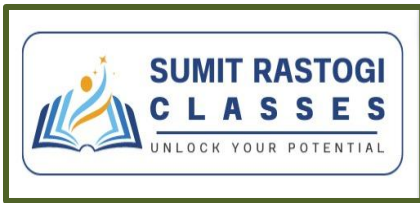
Six Sigma in Quality Control Process:

Six Sigma is a set of practices originally developed by Motorola to systematically improve processes by eliminating defects. A defect is defined as non-conformity of a product or service to its specifications. While the particulars of the methodology were originally formulated by Bill Smith at Motorola in 1986, Six Sigma was heavily inspired by six preceding decades of quality improvement methodologies such as quality control, TQM, and Zero Defects.

Like its predecessors, Six Sigma asserts the following:

- a) Continuous efforts to reduce variation in process outputs is key to business success.
- b) Manufacturing and business processes can be measured, analyzed, improved and controlled.
- c) Succeeding at achieving sustained quality improvement requires commitment from the entire organization, particularly from top-level management.

The term "Six Sigma" refers to the ability of highly capable processes to produce output within specification. In particular, processes that operate with six sigma quality produce at defect levels below 3.4 defects per (one) million opportunities (DPMO). Six Sigma's implicit goal is to improve all processes to that level of quality or better.



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Question 5

State what Enterprise resource planning (ERP) can do for the Business.

(June 23)

Answer 5

What Enterprise Resource Planning can do for the Business System:

1. ERP facilitates company-wide Integrated Information System covering all functional areas like manufacturing, selling and distribution, payables, receivables, inventory, accounts, human resources, purchases etc.,
2. ERP perform core activities and increases customers service, thereby augmenting the corporate image.
3. ERP bridge the information gap across organisations.
4. ERP provides complete integration of system not only across departments but also across companies under the same management.
5. ERP is the solution for better project management.
6. ERP allows automatic introduction of the latest technologies like Electronic Fund Transfer (EFT). Electronic Data Interchange (EDI), Internet, Intranet, Video conferencing, E-commerce etc.
7. ERP eliminates most business problems like materials shortages, productivity enhancements, customer service, cash management, inventory problems, quality problems, prompt delivery etc.
8. ERP not only addresses the current requirement of the company but also provide the opportunity of continually improving and refining business Processes.

Question 6

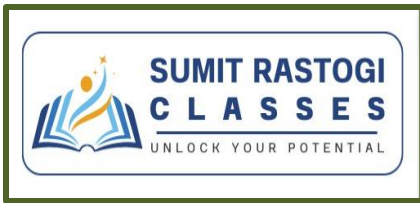
"Value Analysis is a methodical approach to sharpening the efficiency and effectiveness of any process" - In this context, summarize the phases of Value Analysis. (Any five)

(Dec. 23, Dec. 24)

Answer 6

The Phases of Value Analysis are summarized as follows:

1. **Origination:** The phase of origination starts with the identification of a project to undertake value analysis. After selecting the project, a project team consisting of experts from various fields and departments is constituted.
2. **Information:** The second phase is that of collecting relevant information. In this phase, the relevant facts relating to specifications, drawings, methods, materials, etc. are collected. Costs are, also, ascertained for each of the elements that are being studied.
3. **Functional Analysis:** Then follows the important phase of functional analysis. After familiarization with the relevant facts & figures, a functional analysis is carried out to determine the functions and uses of the product and its components. The cost and importance of each function are identified. A value index is computed on the basis of cost benefit ratio for each of the functions.



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4. **Innovation:** This is the creative phase concerned with the generation of new alternatives to replace or remove the existing ones. The objective is to produce ideas and to formulate alternative means and methods for accomplishing the essential functions and improving the value of the element under consideration.
5. **Evaluation:** During the stage of evaluation, each and every alternative is analyzed and the most promising alternatives are selected. These alternatives are further examined for economic and technical feasibility. The alternatives finally selected must be capable of performing the desired functions satisfactorily.
6. **Choice:** In this phase, the decision makers choose the best of alternatives. The programs and action plans are then developed to implement the chosen alternative. (
7. **Implementation:** The chosen alternative is put to actual use with the help of the programs and action plans. The progress of implementation is continuously monitored and followed up to ensure that the desired results are achieved.

Question 7

Enumerate what are the advantages of Cost Control System.

(Dec. 23)

Answer 7

Advantages of cost control system:

The advantages of cost control are mainly as follows:

Achieving the expected return on capital employed by maximising profit. or optimizing

- a) Increase in productivity of the available resources(c)
- b) Continued employment and job opportunity for the workers.
- c) Reasonable price of the customers.
- d) Economic use of limited resources of production.
- e) Increased credit worthiness.
- f) Prosperity and economic stability of the industry.

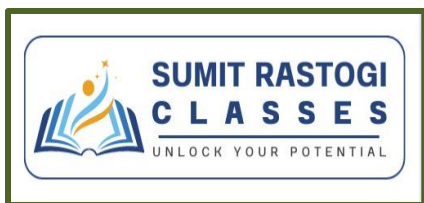
Question 8

What is Lean Accounting? Append the Principles and Practices of Lean Accounting.

(June 24, Dec. 25)

Answer 8

Lean Accounting is the application of Lean thinking to all accounting and finance processes and systems. It is an essential component of a successful Lean transformation for any organization. Lean accounting uses a method that categorizes costs by value stream rather than by department. This approach "provides the basis for sound management decisions". Lean accounting groups together costs that fall outside of the value stream as "business sustaining costs" that do not get included in value stream costs. This, in turn, helps the businesses to find better price points for products and do further research into high-cost areas. The bottom line is that Lean accounting can help business leaders quickly know if they are heading in the right direction or need to make a change.



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The principles and practices of lean accounting are appended in the following table:

Principles	Practices
Lean & Simple Business Accounting	Continuously eliminates waste from the transactions, processes, reports, and other accounting methods.
Accounting process that supports lean transformation	Management Control & Continuous improvement. Cost Management Customer & supplier value and Cost Management.
Clear & Timely Communication of information	Financial reporting Visual reporting of financial & non-financial performance measurements. Decision making
Planning from a lean perspective	Planning & Budgeting. Impact of lean improvement. Capital planning Invest in people
Strengthen internal accounting control	Internal control is based on Lean Operational Controls. Inventory Valuation.

Question 9

"Quality is the degree to which a set of inherent characteristics fulfils requirements." - In this context, explain the concept of quality and append the cost of quality under different categories briefly explaining them. **(June 25)**

Answer 9

The term quality is a perception which is personal to an individual. In plain terms, quality is "features" or "worth" or "value". Today, there is no single universal definition of quality. Some common definitions of quality are as under Conformance to specifications: It measures how well the product or service meets the targets and tolerances determined by its designers.

Fitness for use: It focuses on how well the product performs its intended function or use.

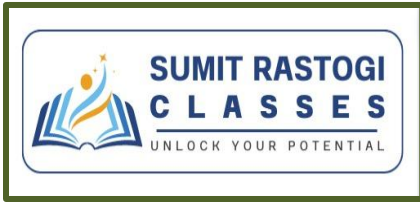
Value for price paid: It is a definition of quality that consumers often use for product or service usefulness.

Support services: These services provided are often how the quality of a product or service is judged.

Psychological criteria: It is a subjective definition that focuses on the judgmental evaluation of what constitutes product or service quality.

Costs of quality can be classified into the following groups for better quality costs management:

- (i) Prevention costs,
- (ii) Appraisal costs,
- (iii) Internal failure costs and
- (iv) External failure costs.



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- (i) **Prevention costs:** Prevention costs are all costs incurred in the process of preventing poor quality from occurring. They include quality planning costs, such as the costs of developing and implementing a quality plan. Also included are the costs of product and process design, from collecting customer information to designing processes that achieve conformance to specifications.
Example: Quality training. Quality circles, Statistical process control activities, System Development for prevention. Quality improvement.
- (ii) **Appraisal costs:** Appraisal costs are incurred in the process of uncovering defects. They include the cost of quality inspections, product testing, and performing audits to make sure that quality standards are met. Also included in this category are the costs of worker time spent measuring quality and the cost of equipment used for quality appraisal.
Example: testing and inspecting materials, final product testing and inspecting, WIP testing and inspecting, package inspection and depreciation of testing equipment.
- (iii) **Internal failure costs:** Internal failure costs are associated with discovering poor product quality before the product reaches the customer site. One type of internal failure cost is rework, which is the cost of correcting the defective item. Sometimes the item is so defective that it cannot be corrected and must be thrown away. This is called scrap, and its costs include all the material, labor, and machine cost spent in producing the defective product.
Example: cost of scrap (net of realization), cost of spoilage, cost of rework, down time due to defect in quality and retesting.
- (iv) **External failure costs:** External failure costs are incurred when inferior products are delivered to customers. They include cost of handling customer complaints, warranty replacements, repairs of returned products and costs arising from a damaged company reputation.
Example: cost of field servicing, cost of handling complaints, warranty repairs, lost sales, warranty replacements.