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Answer Paper	
SCMPE	Duration: 65
Details: Test – 2	Marks: 35

Instructions:

- All the questions are compulsory
- Properly mention test number and page number on your answer sheet, Try to upload sheets in arranged manner.
- In case of multiple choice questions, mention option number only Working notes are compulsory wherever required in support of your solution
- Do not copy any solution from any material. Attempt as much as you know to fairly judge your performance.

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ANS 1:-

I. Performance Management Indicators

Performance Management System plays a key role in developing strategy; it is require measuring the current performance and establishing standard. For performance measurement, certain indicator can be established & such indicator may be-

- Financial Performance Indicator e.g., ROI, EPS and EBITDA
- Non-Financial Performance Indicator e.g., Balance Scorecard

Performance indicator having objectives of

- Evaluating the achievements of organization objective
- Compensate manager

II. Need of non-financial performance indicators

Since financial performance indicators are profit oriented only, but strategy needs to be sustainable apart from profitable. Hence in order to overcome the inadequacy and unjustifiable nature of financial performance indicators, non-financial performance indicator need also to be used. Hence opinion framed by VP-Finance is not tenable that revenue and earnings growth of 14% and 12% respectively, apart from ROI is 11.5% is sufficient to evaluate performance.

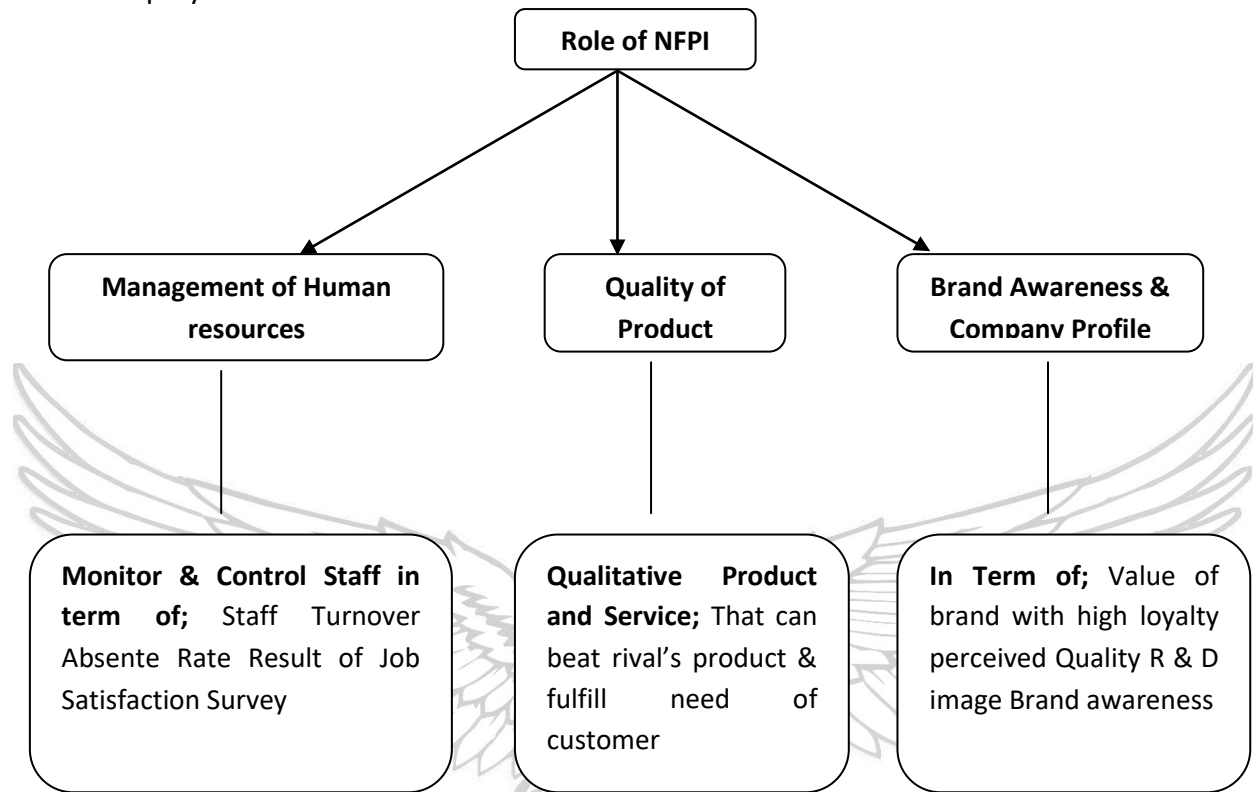
Non-Financial Performance Indicators are sustainable action-based indicators. For example, employee training/ health & safety will increase the profit & let them feel empowered, hence NITs are equally important to consider. Similarly putting effort in research and development to yield innovative product will result in high brand image & high intellectual property rights.

III. Role of Non-Financial Performance Indicator (NFPI)

As already stated, Non-Financial Performance Indicator consider non-monetary aspects of performance such as-

- Skill, Attrition and Job Satisfaction of Human Resource

- Quality of Product
- Brand Equity



IV. Different Models of Non-Financial Performance Indicators that MNFL can apply

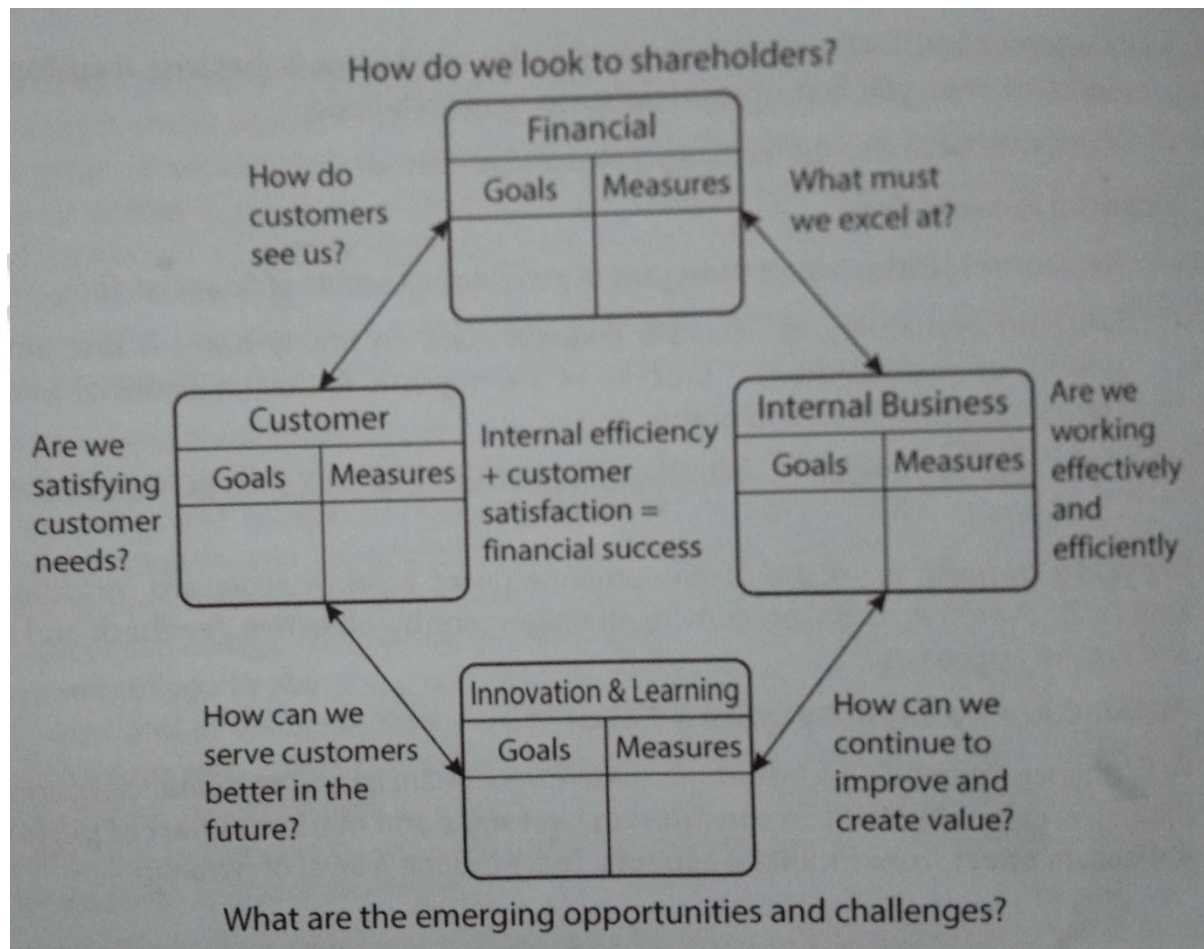
Top bosses at MNFL wish to consider non-financial indicators apart from financial indicators, hence following models of non-financial performance indicators can be applied-

Balanced Scorecard (By Robert Kaplan and David Norton in 1990)

Balanced Scorecard can equip, MNFL with a management system (which is more than just measurement system) that is better, in terms of ensuring availability of information to business manager to make better decision and evaluation thereof, by establishing goals and measures in regard to four perspectives-

- Innovation, Learning and Growth Perspective - Suggested by VP - HR

- Internal Business Process Perspective - suggested by VP - Operation and Planning
- Customer Prospective - suggested by VP - Marketing and Chief Information Officer
- Financial Perspective - Already under consideration



Innovation, Learning & Growth Perspective

- Employee training & corporate culture attitudes in order to ensure individual and corporate improvement.
- People are main resources in an organization because they are only repository of knowledge.
- It constitutes essential foundation for success of any knowledge worker organization (learning and growth).

- Learning is something more than training. Purpose is to improve ratio of skilled, semi-skilled and unskilled worker (1:2:6); not by hiring but by inculcating learning into exiting workforce.

Internal Business Process Perspective

- This perspective refers to internal business process.
- This perspective allows the manager to know how well their business is running.
- This perspective needs to be carefully designed/explained by those who know these processes most intimately.

Customer Perspective

- Recent management philosophy has shown on increasing realization of the importance of customer focus.
- Customer Satisfaction is very important for any business, because if customer is not satisfied, then will find other supplier to fulfill their need.
- Customer base should be categorized and analysed.

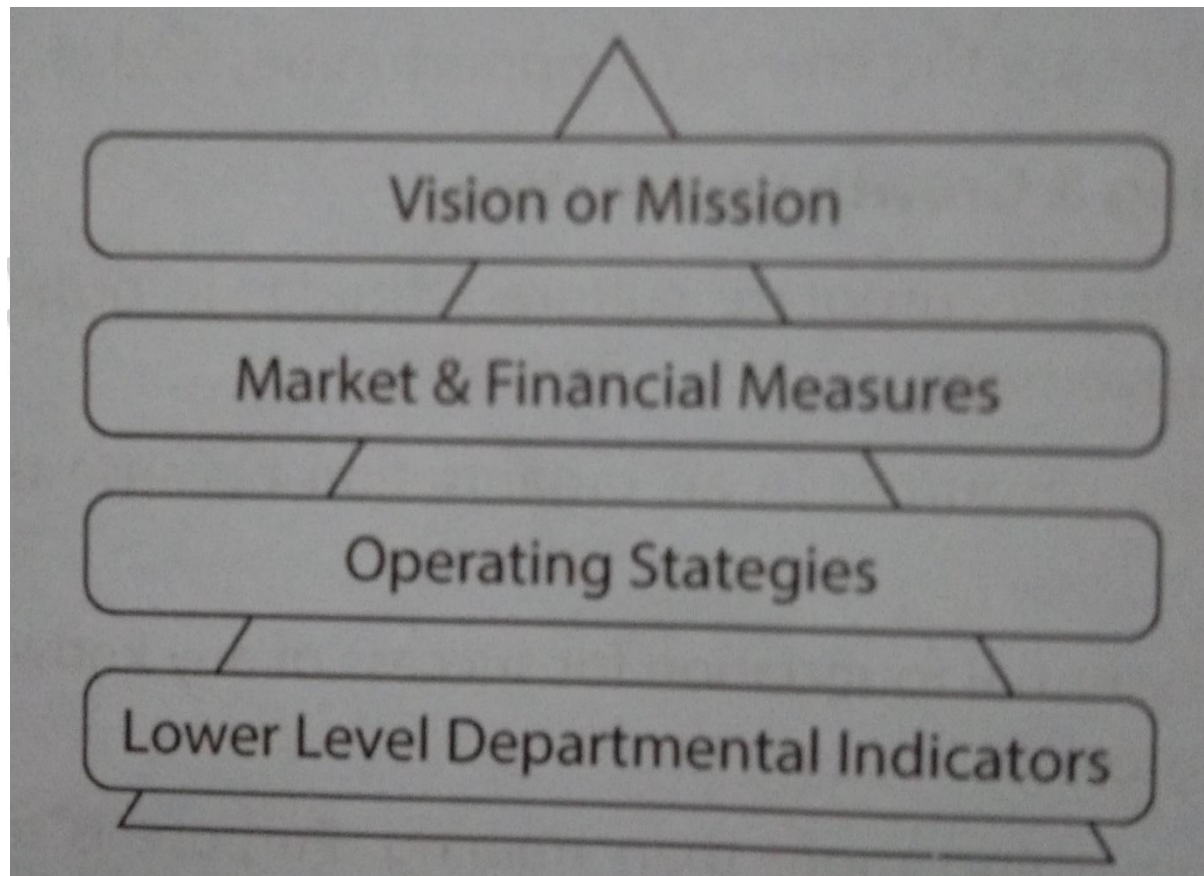
Financial Prospective

- Kaplan and Ni for don't disregard the traditional needs of financial data.
- Ensuring availability of accurate financial data on timely bases is one among the priority of management -- process of storing and retrieving financial information should centralized and automated.
- There may be needed to include additional financial data such as risk assessment and cost aspects.

Expected benefit to MNFL of implementation of balance scorecard includes holistic approach, overall agenda, objectivity, management by objective, feedback and learning and system approach.

Performance Pyramid (By Lynch & Cross)

Performance Pyramid which contains hierarchy of financial and non-financial performance measures, can help MNFL in considering customer and market as part of performance indicators apart from financial aspects. There are the 4 level of pyramid.



Level 1

Corporate Vision and Mission defines how organization will achieve long term success & competitive advantage.

Level 2

In order to achievement of Corporate Vision and Mission the focus is on

- Market Related Measures

- financial Measures

Level 3

Operating Strategies become guiding force to achieve strategic objective, which includes customer Satisfaction, Increased Flexibility and High Productivity.

Level 4

Status of level 3 driving forces can be monitored using the lower-level departmental indicators such as Quality, Delivery, Cycle time and Waste etc.

Note: There is drawback of pyramid that it does tend to concentrate largely on shareholder & Customer.

Building Block Model (By Fitzgerald and Moon)

Building Block Model an approach to performance measurement in business services.

There are three blocks Dimensions, Standards and Rewards.

- Dimensions are Critical Success Factors (CSFs)
- Standards are Key Performance Indicators (KPIs) and
- Reward is essential in order to keep workforce energetic and motivated - hence should be performance related.

MNFL can use the Building block model to identify the CSFs and then determine the KPIs. These both CSFs and KPI will become the part of performance matrix at MNFL.

3 Building Blocks:-

Dimensions: - These are the goals to measure each performance

Standards: - It have the characteristics of ownership, achievability and fairness

Rewards: - Ensure employees are motivated to meet standard

- Standard must be linked to the controllable factor and clear.

Performance Prism (By Andy Neely and Chris Adams)

There is limitation of balance scorecard that is only two set of stakeholders, which are shareholder and customer. MNFL can overcome that limitation) of balance scorecard by using Performance Prism model.

Performance Prism framework can help the top bosses at MNFL to consider wide range of stakeholders including activities, communities, consumers, employees, legislators, regulators and suppliers with five focus areas.

Five Focus Area's

- **Stakeholder Satisfaction:** - Identify the stakeholder and understand their need
- **Strategies:** - Should be drafted in order to fulfill stakeholder's need
- **Process:** - Critical Processes to fulfill such needs & strategies
- **Capabilities:** - Capabilities need to operate our processes more effectively and efficiently
- **Stakeholder Contribution:** - Need from our stakeholder to maintain capabilities

(8 Marks)

ANS 2:-

Part (i):

Statement showing profitability based on the original cost allocation

Particulars	Grade A	Grade B
Direct Material (WN 1)	114	186
Direct Labour (WN 2)	76	124

Overhead (equally)	75	75
Total Cost	265	385
Selling Price	280	400
Profit	15	15
Profit % on Selling Price	5.36%	3.75%

Working Note 1

D/M	Grade A	Grade B
CC1	$90 \times 30\% = 27$	$90 \times 70\% = 63$
CC2	$120 \times 50\% = 60$	$120 \times 50\% = 60$
CC3	$90 \times 30\% = 27$	$90 \times 70\% = 63$

Working Note 2

D/L	Grade A	Grade B
CC1	$60 \times 30\% = 18$	$60 \times 70\% = 42$
CC2	$80 \times 50\% = 40$	$80 \times 50\% = 40$
CC3	$60 \times 30\% = 18$	$60 \times 70\% = 42$
Total	76	124

Statement showing profitability based on Activity Based Costing

	Grade A	Grade B
Direct Material	114	186
Direct labour	76	124
Overhead		
Incinerator (6:9)	36	54
Remaining (1:1)	30	30
Total Cost	256	394
Selling Price	280	400
Profit	24	6
Profit % on Selling price	8.57%	1.50%

Part (ii):

Profit of Grade A has increased from 5.36% to 8.57% whereas of Grade B, it has decreased from 3.75% to 1.5% under ABC Method. This is mainly due to higher incinerator cost allocation to Grade B since it produces high volume of solid waste.

Part (iii):

Key Take ways:

1. **Pricing strategy** can be reset for Grade A and B as their cost structure is different due to environment cost impact.
2. **Cost reduction** can be planned as regards to incinerator cost. As volume of solid waste is known, measures can be taken to reduce such waste.

3. Phasing out decision may be taken if products are less profitable due to their environmental costs. Grade B has a slight margin of 1.5% which needs to be monitored carefully.

(7 Marks)

ANS 3

i. Essential Components of Performance Management System

Performance management system which is considered as a key aspect of management accounting and must contain following components-

- Establishing functional and divisional organisation's structure along with determination the level of decentralization.
- Establish responsibility centres and identify the person responsible for performance of each such centre.
- Establishing the system to identify KPI against which performance will be measure and establishing the yardsticks.
- Review system in order to compare the actual against standards and required corrective action.

ii. Building Block Model

Building Block model of performance management is developed by Fitzgerald and Moon as a framework to improve performance measurement in service businesses.

The model suggests that performance systems should be based on three concepts: dimensions, standards, and rewards.

Dimensions (these are critical success factor) - There are six areas upon which company needs to focus in order to improve its performance. The model also suggests that the dimensions can be divided into two sets-

Results - Competitiveness & Financial Performance

Determinants - Quality of Service, Flexibility, Resource Utilization and Innovation

Note- Improvement in results can be ensured by improving performance in determinants.

Standards (these are key performance indicators) -Second aspects of Building Block Model are to establishing the standards or determining the yardstick level. Model also suggests at the three properties which must be possessed by performance measure, these properties are_

- Ownership,
- Achievability and
- Fairness,

Rewards - In order to encourage the workforce, so that they can achieve the standards established; model also suggests three properties which every reward should possess.

These properties are

- Clarity,
- Controllability and
- Motivation.

iii. Evaluation of Existing Performance Management System

The existing performance management system at BS LLP doesn't focus upon determinants specified by Building Block Model. Prima facie it is apparent from the performance matrix used by partners in their monthly meeting that performance is evaluated based upon financial performance only. Let's evaluate existing performance management system further-

Dimensions

The existing performance management system at BS LLP is allowing to consider the results in reference to: (i) Financial performance - it measures net profit margin and change-increase in revenue over previous year and (ii) Competitive performance - revenue of BS LLP can be compared with industry revenue (segment wise) to calculate market share.

The matrix used by existing performance management system doesn't contain any major information from which performance level of determinants can be measured. But recently at BS LLP customer rating is used, which can be taken as KPI for quality of service.

Standards

Presently it seems BS LLP is measuring segment wise performance against performance of industry (based upon revenue) apart from measuring net profit and growth.

Ownership

Since organization structure is not clearly defined in the case above, hence ownership for each of dimension stated above can't be identified in existing performance management system.

Achievability & Fairness

In order to ensure achievability of standard established and fairness of same, presently it seems BS LLP is measuring segment wise performance against performance of industry (based upon revenue), whereas measure net profit and growth against standard established internally.

Reward System

Although non-partners at BS LLP are getting variable component of their remuneration/ rewards based upon their rating by immediate boss and peer, but the criteria of rating are not clearly defined and weight is also not mentioned for boss rating and rating by peer. If such criteria are not ration may cause de-motivation among staff.

Whereas partners are getting fixed remuneration apart from share in profit earned. Here in given case it is not clear whether profit of respective division or entity as whole, BS LLP. It is

obvious that, if partners are getting reward based upon measure, which they can't control they may be de-motivated. This may also not improve the performance of bad performing division, because they are also getting reasonable amount as share in profit due better performance by other departments.

(6 Marks)

ANS 4:

(i) Usually, we notice a suit of prices of products being determined based on the cost of their production, keeping a room for desired margin. In contrary to this, the then originated Japanese concept tells us to estimate selling price at first place, to be determined based on the price the market is currently willing to pay for a similar product. Thus, the prices here are not based on the cost of their products rather costs have to be targeted and thus the name "Target Costing". This means once price is determined and profits are set aside, the remainder becomes the costs to be achieved. In striving to reach the cost goal, myriad managerial techniques and tools like Value Chain Analysis/ Value Reengineering, Six Sigma, are used. These techniques are used keeping in mind the focus (i.e., to control cost in order to meet the target without compromising the quality and value to be derived from the product). As such, various costs incurred with respect to product like design cost, manufacturing cost, storage cost, transportation cost are destined to be controlled.

Target Cost concept is very much relevant in Dream Homes situation since it is considering to digitize its business where competition is intense specifically with regards to the prices of products. Since the products offered by Dreams Homes lack much differentiation, the unique selling point of the firm can be to offer quality products at low prices Further, E Commerce will mostly require the firm to operate as per Just in Time (JIT) approach that will reduce inventory maintenance burden and also reduce wastage, thereby controlling costs. Thus, Target Costing and E Commerce go hand in hand.

We must also keep in mind that the firm can apply Target Costing concept to both its manufactured products and the products purchased out-rightly, For the merchandise Dream Homes can plan to control various fixed cost (i.e., storage and inspection and variable cost (it e , selling cost) to handle such goods such that lower prices can appeal wider customer base. Moreover, to achieve Low costs for its supplied products, it will have to enter into long term contracts with dedicated suppliers. Considering the E Market, the scope of its operations will expand and therefore the demand may also increase. Thus, suppliers can funnel the discounts in form of low prices only if a commitment for long term purchases is made by the firm.

(ii) Currently, Dream Homes operates physical stores at which time inventories of raw materials, WIP and finished products are maintained at the stores and warehouse considering the demand directly dependent upon the store locations. It has been blocking large assets in form of various inventories piled up to coordinate its production and retail function.

The three forms of inventories related to products that Dream House manufactures at maintained in a traditional manner which seems to be out of the Place for an Retailer. Dream House forecasts demand based on its internal policies and historical trends. Today demand in every sector of the market changes by leaps and 'bound\$, so using historical data is not at all recommended. Demand forecasts should be pulled by current market trends and prediction of future market sentiments. For example, Corona Virus pandemic has drastically changed the face of world, where demand for some products bow taken a leap while some will continue sitting on the shelves for a prolonged period. People are refraining themselves from going to stores and online retailers like Amazon are reaping the benefits from this situation.

In the process of maintaining inventory, Dream Homes is also building up too much safety stock which takes up cost and space, The lead time of the firm is remarkably high relative to industry standards, which is untenable in an F Environment Failure to accommodate customers request as per industry norms, means losing a large chunk of customers who do not want to wait.

Now when the firm is thinking of going digital, the scenario will be totally different. With the switch over to ecommerce, production and purchase mechanism will also have to undergo a

drastic change. Just in time purchasing and production technique will put an end to the harrowing task of inventory management. In this form of pull system, purchasing of merchandise goods and production of in-house goods will be based on online customer demands and Dream Homes will have to accordingly coordinate with its suppliers to supply the right quantity of raw materials required at the right time. JIT inventory management calls for having the inventory as and when needed also taking care of massive holding cost suffered related to large build ups. The trick is to set up plants in close proximity to chain of suppliers' location to ensure several pick-ups each day rather than holding on to bulks. ERP and other sources of electronic data interchange between supplier and Dream Homes will act as backbone in supporting the JIT activity. In this environment, Dream House will also be able to reduce the lead time to deliver the ordered products from 4 weeks to around 2.5 weeks by streamlining the flow of information in entire supply chain.

For the products purchased from its suppliers, it is recommended that Dream Homes should employ vendor managed inventory technique. Under this, rather than firm controlling the inventory management system, it is the suppliers who manage it. This is implemented by allowing the suppliers of the firm to access the inventory information from all locations i.e., warehouse, retail stores and distribution centers. They access the inventory data and then decide accordingly on sending/ replenishing the inventories. For example, using the point of sales technology, data from stores can flow to centralized database showing units sold and units in the stores, that can be can by suppliers to anticipate demand and refill requirement in each store. Similarity to manage the inventory at warehouse, RFID (radio frequency identification) technique can be used to pick up, process and ship the order. For an inbound shipment too, this technology cart easily scan the product information in seconds, leaving no room for human intervention. The access of this real time data can be allowed to vendor, to manage Dream Homes' inventory.

In a nutshell, the onus and cost of inventory management passes on to the suppliers, thereby underpinning the cost leadership strategy of Dream Homes, Low cost of inventory management

will consequently reduce the overall cost of inventory and thus help, in achieving set cost targets.

(iii) The supply chain management system of Dream Homes can be designed in the following manner:

a) As already known, E Commerce firms work on low inventories relative to Physical stores, therefore Dream Homes is pondering about changing in its inventory management technique. So, it is time for the firm to focus on building strong collaborations with suppliers so that the lead time of orders placed by Dream Homes can be kept at minimum. Quality of the product offered by such suppliers also cannot be overlooked anymore since E Sellers not only make speedy shipments but also guarantee hassle free returns of the delivered product if their products fail to meet the specifications given in their website. Strong tie up with suppliers will assist the firm in meeting the ever-changing demand of its customers in this technological landscape.

b) Moreover, by implementing vendor managed inventory, as an effective SCM tool, much of the onus of inventory management for its purchased products will shift onto suppliers.

c) For the in-house manufactured products, Dream Homes needs to ensure that there is pool of dedicated suppliers in the country who can supply expected materials on a timely basis. Further, in the areas where there is dearth of such suppliers, it will have to arrange transportation of the finished goods. To keep the overall cost of product low, it should abide by the cost per touch inventory system (successfully employed by the prominent furniture brand IKEA. It relies on the concept of passing the cost savings to its customers by putting up their products together in easy to assemble packaging enabling their customers themselves to select and pick up the product from the store. In a nutshell, less the products get touched in shipping and subsequent storage process less will be the overall cost of product).

d) Most E Retailers maintain number of distribution centers close to their customer locations such that the outbound logistics process works in a seamless fashion and customers end up receiving their packages on the promised dates. For this to happen, Dream Homes should be

ready to make large capital investments in setting up distribution centers in the densely populated parts of Indian cities.

e) For the picking process of the goods in line with the order, it can make use of multi-faceted robotics technology with some human participation. This technology can assist human pickers in locating the required goods faster and with minimal error, thereby speeding up the entire flow.

f) In the marketing section of supply chain, Dream Homes should use skillful data scientists to pull overwhelming data based on customer searches which can be analysed to recommend products most useful to them. Further it could resort to TV advertisements, public banners and other prominent modes propagate the digitization of its business.

(9 Marks)

ANS 5:-

Statement showing “Pareto Analysis of complaints from Customers”

Complaint Categories	No. of Complaints	% of Total Items	Cumulative %
Faults in line	436	27.42	27.42
Over Charging/Wrong Billing	372	23.4	50.82
Late attending of complaints	246	15.47	66.29
Customer Service	218	13.71	80
Activation of Wrong Plans	135	8.49	88.49
Non-posting of payments to account	97	6.1	94.59

Connection Installations	65	4.09	98.68
Transfer of connections	21	1.32	100
Total	1590	-	-

Activation of Wrong Plans' will not be addressed in the first quarter since it does not fall into the 80% category.

(5 Marks)

