



# CA Test Series.org (Since 2015)

CA Final | CA Inter | CA IPCC | CA Foundation Online Test Series

Question 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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**Q 1:-** Marcus Neo-fashion Limited (MNFL) is leading brand in fashion world. Company is dealing in both fabric and readymade garments. Since the company was established long ago, hence has well established SOPs. Management at MNFL is highly concerned with performance and productivity.

In order to determine and appraise the performance, MNFL conducts fortnightly meeting of heads of different responsibility centres apart from quarterly master meeting. In master meeting each of such departmental head need to present report for his department on following aspects.

**Performance Matrix Dashboard at MNFL**

Criteria	Indicators
I	Average Capital Employed in department with detailed information of source and nature (working or permanent capital)
II	Revenue and Earnings
III	Output (in terms of no of units and per employee productivity)
IV	Existing Clients and New Customer added with data on market share

In one of recent such master meetings, which was chaired by CEO, newly appointed VP-HR quoted 'Intellectual capital is as critical as financial capital in order to ensure smoothening, success and sustainability of any business' hence employee where so ever lagged in technical skills, it is essential and important to work on his skills in order to enhance the productivity. VP-HP said at MNFL. Ratios of skilled, semi-skilled and unskilled worker are 1:2:6, which needs to be worked at. He also insists to roll-out new wage policy which should support 'Performance Related Pay'. He said, 'I don't know much about enterprise performance, but I strongly believe that performance indicators must include performance of employees in term of their skill and knowledge'.

Immediately VP-Finance said existing performance matrix is essentially focused EV/ EBIT and returns on capital hence sufficient from prospective of performance appraisal. Hence there is no major need to consider impact and effect of human capital. He also added that entities revenue is growing @ of 14% and earning is growing at 12% which 4% on higher side than industry. He said present rate of ROI is 11.5 % which is better than industry average of 9%; and Market Cap is also doing well.

VP-Finance countered by VP-Planning & Operations, according to him 'skilled labour will be added advantage in order to develop 'zed' culture i.e., zero accidents, zero defects, zero delays, zero inventory, zero breakdowns, zero changeovers, zero waste'. He also said skilled labour can also add value by incorporating innovations. He quoted presently average defect rate is 1.5% of total production.

On this VP-Marketing add 'skilled employee means better process and better processes leads to competent value chain which can serve highly customized product; hence preconceived quality (conformance to customers' need) leads to strong brand equity.

Chief information officer support VP-Marketing and VP-HR by quoting the position of brand can be improved by product development. Newly developed product will meet and set, latest style statement in market; eventually help MNFL to acquire new customers within existing marketing without incurring much on advertisement or sales and promotion. Skilled labour can easily bring innovation to the product.

**Required:**

Post conclusion of meeting, CEO requested you (Management Accountant) to –

- (i) DESCRIBE performance management indicators.
- (ii) DISCUSS need of non-financial performance indicators at MNFL.
- (iii) TABULATE role of non-financial performance indicators considering the indicator or measures suggested by VP-HR and Chief Information officer.

(iv) Briefly EXPLAIN different models of non-financial performance indicators that MNFL can apply.

(8 Marks)

**Q 2:-** A fertilizer company produces Grade A and Grade B fertilizers. One kilogram of Grade A fertilizer sells for Rs.280 per kilogram and one kilogram of Grade B fertilizer sells for Rs.400 per kilogram.

The products pass through three cost centers CC1, CC2 and CC3 during the manufacturing process. Total direct material cost per kilogram of fertilizer produced is Rs. 300 and direct labor cost per kilogram of fertilizer produced is Rs.200. Allocation between the cost centres is given below:

Particulars	CC1	CC2	CC3	Total
Cost of Direct Material (per Kg. of fertilizer produced)	Rs. 90	Rs. 120	Rs. 90	Rs. 300
Cost of Direct Labour (per kg of fertilizer produced)	Rs. 60	Rs. 80	Rs. 60	Rs. 200
Cost Allocation to Grade A	30%	50%	30%	
Cost Allocation to Grade B	70%	50%	70%	

All of expenses (considered to be overheads) per kilogram of fertilizer produced is Rs. 150. This is allocated equally between Grade A and Grade B fertilizer. Pricing decisions for the fertilizers is made based on the above cost allocation.

The management accountant of the company has recently come across the concept of environmental management accounting. Pricing of products should also factor in the environmental

cost generated by each product. An analysis of the overhead expenses revealed that the total cost of Rs. 150 per kilogram of fertilizer produced, includes incinerator costs of Rs. 90 per kilogram of fertilizer produced. The incinerator is used to dispose the solid waste produced during the manufacturing process. Below is the cost center and product wise information of solid waste produced:

Waste produced (in tonnes per annum)	CC1	CC2	CC3	Total
Grade A	2	3	1	6
Grade B	2	2	5	9

Based in the impact that each product has on the environment, the management would like to revise the cost allocation to products based taking into account the incinerator cost that each product generates. The remaining overhead expenses of Rs. 60 per Kilogram of fertilizer produced can be allocated equally.

**Required:-**

**(i) CALCULATE** product wise profitability based on the original cost allocation.

RECALCULATE the product wise profitability based on activity based costing methodology (environmental management accounting). **(3.5 Marks)**

**(ii) ANALYZE** difference in product profitability as per both the methods **(1.5 Marks)**

**(iii) RECOMMEND** key takeaways for the company to undertake the above analysis of overhead costs and pricing as per environmental management accounting. **(2 Marks)**

**(7 Marks)**

**Q 3:-** Bhalla& Singh LLP (85 LLP) is an accounting firm in form of limited liability partnership with 20+ branches across India, in all major cities. BS LLP offers to its customer services in

accountancy assurance, tax consultancy, business advisory services. Since the country is passing through economic slowdown, hence large numbers of business are entering into either internal/external reconstruction; resultantly advisory services are in huge demands. The industry of accounting practices in India is mature, despite some of statutes enforced recently.

As part of performance analysis, at BS LLP; partners for each service domain collectively meet with top officers, on monthly basis. Following performance related data (belong to latest financial year) was considered in one of recent conducted partner meeting.

Particulars for BS LLP	Accounting	Audits	Tax Consultancy	business Advisory
Revenue (In Rs. Crores)	690	846	145	34
Growth of revenue over previous year	2%	9%	3%	18%
Net profit ratio	5%	4.3%	6.7%	9.8%
Revenue (In Crores) of Accounting Industry as whole	2,518	5,430	1,652	286

#### Remuneration Structure at BS LLP

- **Partners** are getting fixed contractual payment apart from share in profit
- **Non - Partners** are getting fixed salary apart from variable pay depending upon rating from their immediate boss and peers.

Client Relation Officer who is working parallel to marketing team, first time participated in monthly performance evaluation meeting and presented following data which contain rating



from clients of BS LLP. It is decided that these rating will also be added in performance matrix/ table stated above –

Particulars for BS LLP	Accounting	Audits	Tax Consultancy	business Advisory
Customer Ratings (higher the better)	3.6	3.2	3.1	4.5

**Required:**

You are newly appointed management consultant with experience in non-finance performance evaluation techniques. During discussion at lunch table, managing partner (Mr. Singh) explain the above process of performance analysis to you. You quoted about your past experience of implementing non-financial performance evaluation techniques, including Performance Prism, Balance Scorecard and Building Block. Building block sounds interesting to Mr. Singh, he asks you to:

- (i) **LIST** essential components of any performance management system.
- (ii) **DESCRIBE** Building Block Model of performance management.
- (iii) **EVALUATE** the BS LLP's existing performance management system from perspective of 3 essential aspects of Building Block Model.

**(6 Marks)**

**Q 4:-** Dream Homes, a US based MNC, started its Indian operations with opening of few stores in its nascent phase. In recent times, it started running nationwide stores in India selling range of home-based products right from home improvement tools, decors, electronic appliances to small kitchen utilities like steel pans, nonstick dishes, kitchen organizers, knives, cardboards, countertop stickers, ice cream molds, chocolate molds and alike. It had gained wide popularity

particularly among the ladies' group & India since its expansion of the product line. Previously it was selling just the intermittently purchased home-based products like furniture and appliances. It was the extended accessibility to daily utilities that elated the ladies' group about visiting the stores. Some women referred Dream Homes as the one stop search for all their necessities. Dream Homes manufactured some of the products rather than making an outright purchases and sales thereof of all its products. To make various kinds of furniture and kitchen based small utilities, it derived its raw materials directly from local market which were mostly the recycled materials like plastics, scrapped items, used furniture and alike rather than the raw wood, forest products and first hand products. Its raw materials were therefore capable of generating various forms of work in progress. The work in progress and finished product relation worked in similar fashion. From a particular WIP, it was capable of generating multiple outputs. Therefore, the firm kept its material cost low and primarily relied on the recycling process, thereby keeping up its pledge to serve the environment.

**For the in-house manufactured products,** the materials department of the firm functioned in the below manner:

- 1) The manager of the department kept a watch on each type of inventory levels in the warehouse.
- 2) He then estimated the required production based on historical demand and long-term forecasting policies of the firm.
- 3) A room was also left for safety stock so that any unforeseen delay in delivery of the goods could be covered.
- 4) Based on the existing inventory and production plans and safety stocks, inventory replenishment levels were calculated.
- 5) Once the stock reached its reordering level, an order to replenish the stock was being sent to the vendor,
- 6) Based on departmental orders, vendor delivered the materials.



To manufacture the finished products i.e., to convert raw material to finished good, the intervening time was 3 weeks. It will take approximately take 4 weeks to deliver the in-house manufactured product from the time order is received. The standard lead time of similar products in industry is 2.5 weeks.

**For products purchased out-rightly**, a purchase order was prepared by the purchasing department based on the inventory in hand and expected demand. Some of those products did show a sketchy demand pattern, with surge in demand for lame reasons. However, the department did not take into account safety stocks for any of these purchased products, since the cost to maintain such inventories were high and the costs of these products itself were high enough. The problem however was failure to meet surprise orders or sudden increase in demand.

People were getting busier and there was hardly any time to procrastinate buying things they need until they could visit the stores based on their availability. Moreover, it was just the metro cities, that had overwhelming number of stores, but states like Gujarat and Odisha remained an untapped target with very few stores only in the developed parts of the cities. Dream Homes' agenda was not just to add more variety to its existing offerings, but to reach people all around the country since it perceived manifold needs were yet unmet.

Going digital was a challenge since its popularity was limited to its store locations and therefore it was dubious of its acceptability among the nationwide customers. It was prepared for an extensive marketing of its digital channels though and funds were not a problem. Having heard about the peaking demand of businesses for E Customers, it was supportive of the idea and considered to follow the suit.

From its US operations, it was very well aware about the expectations of its E Customers and the quality of service they desire from their E Sellers. They tend to be progressively demanding and expect their orders to be processed in couple of hours after being placed.

They do not want to grapple with the tracking information of their package. They need real time update of their package location so that there are no abrupt surprises about the delivery

time and the condition of the package. They like to purchase from E Sellers who offers competitive prices accompanied with free shipping and on time delivery. That is all too much for a developing market like India.

The labor cost is relatively low in India but the infrastructure is not adequately sound to guarantee the same level of service at their expected prices. Indian market is not similar to the US market, there being an immense cultural gap. The income of the middle-class people is also not remarkably high and hence they can spend sparingly on things that are not paramount on their list. Kitchen items though marked as "necessities" by the women section of the society were not real necessities in economic sense. Hence the firm thought of applying the paradigms of Target Costing to set the prices of their online products such that they remain competitive before their E Customers.

The firm also needs a flawless Supply Chain Management (SCM) System in Indian environment, but the back-office team of the firm had little knowledge about this aspect of the E Commerce project and it did not see the light of the day. Now they need you to help them shape up the SCM look of Dream Homes.

**Required:**

Given the facts of Dream Homes, answer the following questions:

- (i) Discuss the suitability of Target Costing concept to Dream Homes?
- (ii) Critically Assess its current inventory management system and Recommend suitable changes in light of its business strategy.
- (iii) Advise the SCM look for Dream Homes as per their requirement.

**(9 Marks)**

**Q 5:-** Mr. Roy newly appointed as 'Head Service quality of TS Ltd. Has been asked to address the following complaints from customers. He would start solving issues using pareto Analysis (80/20 Rule) in the first quarter.

Complaint Categories	No. of Complaints
Customer Service	218
Overcharging/Wrong Billing	372
Non-posting of payments to accounts	97
Transfer of connection	21
Faults in Line	436
Connection Installations	65
Late attending of complaints	246
Activation of wrong plans	135

Substantiate with relevant figures whether the complaint 'Activation of wrong plans' will be addressed in the first quarter or not.

**(5 Marks)**