This question paper contains **8** printed pages]

7/12/16

Your Roll No. .....

7276

M.Com./Sem. III (NC) **G**

Paper MN 351 : STRATEGIC COST MANAGEMENT

Time : 3 *Hours* *Maximum Marks* : 100

(Write your Roll No. on the top immediately on receipt of this question paper.)

Attempt *All* questions.

All questions carry equal marks.

1. (*a*) Discuss the factors influencing cost management system in a business enterprise.

(*b*) How are cost assigned to products under Activity-based Costing ? 10+10

Or

(*c*) Discuss the techniques of Activity–based Management.

(*d*) Explain different types of quality costs. 10+10

2. (*a*) How is Activity-based Budget prepared ?

(*b*) Explain the different methods of product price setting. 10+10

P.T.O.

Or

A loading publisher publishes two versions of a text-book : One is Paper Back and the other is Hard Bound. Management is considering publishing only the higher quality book. The firm assigns its Rs. 5,00,000 of overhead to the two types of books. The overhead is composed of Rs. 2,00,000 of utilities and Rs. 3,00,000 of quality control, Inspectors salaries. Some additional data is as follow :

	Paper Back	**Hard Bound**
Revenues	16,00,000	14,00,000
Direct Costs	12,50,000	6,00,000
Production (units)	5,00,000	3,50,000
Machine hours	42,500	7,500
Inspections	2,500	12,500

Required :

(*a*) Calculate the overhead cost that should be allocated to each type of text-book using appropriate cost drivers.

(*b*) The firm has used machine hours to allocate overhead in the past. Should the publisher stop producing the Paper Back books ? Explain why management was considering this action and what its decision should be ? 20

3. (*a*) Discuss the steps in Target Costing Process.

(*b*) What is Kaizen costing ? Explain the similarities and dissimilarities between Kaizen costing and target costing.

10+10

Or

ABC company commenced production of a new product P which required the investment of Rs. 20,00,00,000 in assets. The cost of producing and selling. Rs. 1,00,000 units of product are estimated of follows :

Variable Costs :	**Per Unit**
	Rs.
Direct Materials	240
Direct Labour	650
Factory Overhead	90
Selling & Administrative Expenses	20
Total	**1,000**

Fixed Costs :

Factory overhead Rs. 60,00,000

Selling and administrative expenses Rs. 1,40,00,000

The managing director of the company has decided to use the cost plus approach to product pricing must earn 18% rate of return on invested assets.

P.T.O.

Required :

(*i*) Determine the amount of desired profit from the production and sale of product P.

(*ii*) Assuming, that total cost concept is used, determine :

(*a*) Cost per unit

(*b*) Mark up percentage

(*c*) Selling price of product P.

(*iii*) Assuming that the product cost concept is used, determine :

(*a*) Cost per unit

(*b*) Mark up precentage

(*c*) Selling price of product P.

(*iv*) Assuming that the variable cost concept is used, determine :

(*a*) Cost per unit

(*b*) Mark up percentage

(*c*) Selling price of product P.

(*v*) Assume that for the current year, the selling price of product P was Rs. 1,560 per unit. To date 80,000 units have been produced and sold. Recently ABC company received an offer from XYZ company for 4,000 units of product P at Rs. 1,150 each. No additional selling and administrative expenses will be incrurred by ABC company for this offer. Prepare a differential analysis of the proposal. Should the proposal be accepted ? 20

4. (*a*) Discuss the importance of internal linkages and external linkages in value chain analysis.

(*b*) Explain the benefits of JIT inventory management. 10+10

Or

(*c*) A company has the capacity of production of 80,000 units and presently sells 20,000 units at Rs. 100 each. The demand is sensitive to selling price and it has been observed that every reduction of Rs.10 in selling, the demand is doubled.

Required :

(*i*) What should be the target cost at full capacity if profit margin on sale is taken as 25%.

(*ii*) What should be the cost reduction scheme if at present 40% of cost is variable with same percentage of profit.

(*iii*) If rate of return is 15%, what will be maximum investment at full capacity ? 10

(*d*) X Ltd. is developing a high speed modem.

(*i*) Given the following information, compute cost reduction target :

Expected market price	Rs. 500
Required return on sales	20%
Product life	3 years
Current feasible cost	Rs. 7,50,00,000
Expected average annual sales	50,000 units

(*ii*) If X Ltd. believes that it can reduce the cost of the modem by not more that 18%, is it feasible to introduce as product. 10

5. Titan Co. makes digital watches. The company is preparing a product life cyle budget for a new watch citizen estimates for citizen watch are as follows :

	Rs.
Life cycle units produced and sold	4,00,000
Selling price per watch	400
Life Cycle Costs :	
R & D and design costs	1,00,00,000
Manufacturing :	
Variable cost per watch	150
Variable cost per batch	6,000
Watches per batch	500
Fixed costs	1,80,00,000
Marketing :	
Variable cost per watch	32
Fixed costs	10,00,000
Distribution Costs :	
Variable cost per batch	280
Watches per batch	160
Fixed Costs	72,00,000
Customer service cost per watch	15

Required :

(*i*) Calculate the budgeted life cycle operating income for the new watch.

(*ii*) What percentage of the budgeted total product life cycle costs will be incurred by the end of the R & D and design stage ?

(*iii*) The company's market research department estimates that reducing citizen's priec by Rs. 30 will increase life cycle unit sales by 10%. If unit sales increases by 20% assure that all variable costs per watch variable cost per batch and fixed costs will remain the same. Should the company reduce citizen's price by Rs. 30. Show your calculations.

Or

X Ltd. produces a single product, the estimated costs of which are as follows :

Direct Materials Rs. 10 each

Direct wages 8 hours @ Re 0.50 hour

Overhead absorption rate Rs. 1.75 per hour (50% fixed overhead included). During this period, 1000 units will be produced and sold as follows :

900 units of first at Rs. 30 each

50 units of second at Rs. 20 each

50 units of third at Rs. 10 each

Present information to management showing loss due to the production of inferior units. By reprocessing the inferior units taking the full reprocessing time of a further 8 hours and adding further material costing Rs. 4 per unit these "seconds" and "thirds" can be converted into firsts. Present information to the management evaluating the proposal. 20