PG – 254

III Semester M.Com. Examination, April/May 2022
(CBCS) (Semester Scheme)
(New Syllabus) (2021 – 22 Onwards)
COMMERCE
3.4 : Strategic Cost Management – I

Time : 3 Hours Max. Marks : 70

SECTION – A

1. Answer **any seven** questions out of 10. **Each** question carries **2** marks. **(7×2=14)**
   a) Distinguish between Cost control and Cost reduction.
   b) Give the meaning of Cost pool with an example.
   c) What is Experience curve ?
   d) What do you understand by JIT ?
   e) Give the meaning of Value engineering.
   f) Define Strategic cost management.
   g) What do you mean by Customer-Level-Activities in ABC ?
   h) Give the meaning of Life Cycle Costing.
   i) What is Lean costing ?
   j) Give application of Bench marking in Cost management.

SECTION – B

Answer **any four** questions. **Each** question carries **5** marks. **(4×5=20)**

2. Explain the role of the cost accounting in strategic planning and management control.
3. Describe how business process re-engineering helps in strategic cost management.
4. Discuss the benefits of Kaizen costing.
5. Distinguish between traditional costing system and ABC system.
6. Shaw Wallace makes two wines : a regular wine and a premium wine. Shaw Wallace distributes the regular wine and the premium wine through different distribution channels. It distributes 2,40,000 cases of regular wine through 10 general distributors and 1,60,000 cases of the premium wine through 30 specialty distributors. Shaw Wallace incurs Rs. 42,60,000 in distribution costs. Under its existing costing system, Shaw Wallace allocates distribution costs to products on the basis of cases shipped.

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To understand better the demand on its resources in the distribution area, Shaw Wallace identifies three activities and related activity costs.

a) Promotional costs – Shaw Wallace estimates it incurs Rs. 16,000 per distributor.

b) Order handling costs – Shaw Wallace estimates costs of Rs.600 pertaining to each order. Shaw Wallace records show that distributors of regular wine place average 10 orders per year, whereas distributors of premium wine place an average of 20 orders per year.

c) Delivery costs – Rs. 8 per case.

You are required.

i) Using Shaw Wallace existing costing system, calculate the total distribution costs and distribution cost per case for the regular wine and premium wine.

ii) Using Shaw Wallace Activity based costing system, calculate the total distribution costs and distribution cost per case for the regular wine and premium wine.

7. Mr. Robo owns and operates Quality Craft Rentals, which offers Boat rentals and shuttle service on a River. Customers can rent Boats at one station, enter the river there, and exit at one of two designated locations to catch a shuttle that returns them to their vehicles at the station they entered. Following are the costs involved in providing this service each year :

	Fixed Cost (Rs.)	**Variable Costs (Rs.)**
Boat maintenance	1,38,000	150
Licenses and permits	1,80,000	0
Vehicle leases	3,24,000	0
Station leases	4,15,000	0
Advertising	3,60,000	30
Operating costs	12,60,000	30

Quality Craft Rentals began business three years ago with Rs.10,50,000 expenditure for a fleet of 30 Boats. These are expected to last seven more years, at which time a new fleet must be purchased.

Robo is happy with the rental average of Rs.3,84,000 per year. For this number of rentals, what price should he charge per rental for the business to make a 20 percent life-cycle return on investment ?

SECTION – C

Answer **any two** questions out of **four**. **Each** question carries **12** marks. **(2×12=24)**

8. Describe the procedure for implementation of lean cost management along with the benefits and drawbacks of lean cost management.

9. Answer the following :
   a) Describe areas of cost management with suitable examples.
   b) Distinguish between cost management and cost accounting.

10. Timex makes digital watches. Timex is preparing a product life cycle budget for a new watch, MX3. Development on the new watch is to start shortly. Estimates for MX3 are as follows :

Life-cycle units manufactured and sold	4,00,000
Selling price per watch	Rs. 400
Life-cycle costs :	
R & D and Design costs	Rs. 1,00,00,000
Manufacturing :	
Variable cost per watch	Rs. 150
Variable cost per batch	Rs. 6,000
Watches per batch	Rs. 500
Fixed costs	Rs. 1,80,00,000
Marketing :	
Variable cost per watch	Rs. 32
Fixed Costs	Rs. 1,00,00,000
Distribution :	
Variable cost per watch	Rs. 2,800
Variable cost per batch	Rs. 160
Fixed costs	Rs. 72,00,000
Customer service cost per watch	Rs.15

You are required to

   a) Calculate the budgeted life-cycle operating income for the new watch.
   b) What percentage of the budgeted total product life-cycle costs will be incurred by the end of the R&D and Design stages ?
   c) An analysis reveals that 80% of the budgeted total product life-cycle cost of the new watch will be locked in at the R&D and design stage. What are the implications for managing MX3's costs ?

11. The Ranga Repair shop repairs and services machine tools. A summary of its costs (by activity) for October-December is as follows :

	Rs.
Materials and labour for servicing machine tools	8,00,000
Rework costs	75,000
Expediting costs caused by work delays	60,000
Materials-handling costs	50,000
Materials procurement and inspection costs	35,000
Preventive maintenance of equipment	15,000
Breakdown maintenance of equipment	55,000

i) Classify each cost as value-added, non-value added, or in the gray area in between.

ii) For any cost classified in the grey area, assume 65% of it is value-added and 35% is non-value added. How much of the total of all seven costs is value-added and how much is non-value added ?

iii) Ranga is considering the following changes :

a) Introducing quality improvement programs whose net effect will be to reduce rework and expediting costs by 75% and materials and labour costs for servicing machine tools by 5%.

b) Working with suppliers to reduce materials procurement and inspection costs by 20% and materials-handling costs by 25% and

c) Increasing preventive maintenance costs by 50% to reduce breakdown maintenance costs by 40%.

Calculate the effect of programs (a), (b), and (c) on value-added costs, non-value added costs, and total costs ? Comment briefly.

SECTION – D

Answer the following : **(1×12=12)**

12. Motorola manufactures wireless telephones. Motorola is deciding whether to implement a JIT production system, Which would require annual tooling costs Rs. 15,00,000. Motorola estimates that the following annual benefits would arise from JIT production :

a) Average inventory would decline by Rs. 70,00,000, from Rs. 90,00,000 to Rs. 20,00,000.

b) Insurance, space, materials-handling, and setup costs, which currently total Rs. 20,00,000, would decline by 30 percent.

c) The emphasis on quality inherent in JIT systems would reduce rework costs by 20 per cent. Motorola currently incurs Rs. 35,00,000 on rework.

d) Better quality would enable Motorola to raise the selling prices of its products by Rs. 30 per unit. Motorola sells 30,000 units each year.

Motorola's required rate of return on inventory investment is 12 per cent per year.

You are required :

i) Calculate the net benefit or cost to the Motorola from implementing a JIT production system.

ii) What other non-financial and qualitative factors should Motorola consider before deciding whether it should implement a JIT system ?

iii) Suppose Motorola implements JIT production, give examples of performance measures Motorola could use to evaluate and control JIT production.