PG – 266

III Semester M.Com. Examination, April/May 2022
(CBCS Scheme)
COMMERCE
Paper – 3.4 AT : Strategic Cost Management – I

Time : 3 Hours Max. Marks : 70

SECTION – A

Answer **any seven** of the sub-questions. **Each** question carries **two** marks. **(7×2=14)**

1. a) Explain the term 'life-cycle' costing.
   b) Define strategic cost management.
   c) Distinguish between ABC and ABM.
   d) What do you mean by cost driver and cost pool ?
   e) Define Kaizen costing.
   f) What do you mean by JIT ?
   g) Distinguish between cost control and cost reduction.
   h) Give the meaning of Lean Cost Management.
   i) Mention any four-benchmarking code of conduct.
   j) Name a cost which is reflected in the accounting system but not used in decision making.

SECTION – B

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

2. "Target costing is applied during the design stage whereas kaizen costing is applied during the manufacturing stage of a product's life." Discuss.

P.T.O.

3. Star Ltd. provides the following details on its new product.

Years 1 and 2 : R and D Costs – ₹ 2,40,000, Design Costs – ₹ 1,60,000

Years 3 to 6 : Other functional Costs –

Function	One-time costs ₹	Costs per unit ₹
Production	1,00,000	25
Marketing	70,000	24
Distribution	50,000	16
Customer service	80,000	30

The sale quantities during the Product Life Cycle at various Selling Prices are :

Selling Price per unit (₹)	400	480	600
Sale quantity in units	5,000	4,000	2,500

Ignoring time value of money, compute the Net Incomes generated over the Product Life Cycle at various prices. Which price should the company select ?

4. Bharti Company produces two types of stereo units : Traditional and Modern. Activity data as follows :

Activity usage measures	Product-Costing Data		
	Traditional	Modern	Total
Units produced per year	5,000	50,000	55,000
Prime costs	₹ 39,000	₹ 3,69,000	₹ 4,08,000
Direct labour hours	5,000	45,000	50,000
Machine hours	10,000	90,000	1,00,000
Production runs	10	5	15
Number of moves	120	60	180

Activity	Activity Cost Data (Overhead Activities) Activity Cost (₹)
Set-ups	60,000
Material handling	30,000
Power	50,000
Testing	40,000
Total	**1,80,000**

Required :

a) Calculate the consumption ratios for each activity.

b) Group activities based on the consumption ratios and activity levels.

c) Calculate a rate for each pooled group of activities.

d) Using the pool rates, calculate unit product costs.

5. Compute the materials ratio for materials A and B and comment upon the results.

	Materials A(₹)	Materials B(₹)
Opening stock	10,000	35,000
Purchases during the year	76,000	50,000
Closing stock	6,000	25,000

6. Woody Company incurred an activity cost of ₹ 55,000 for inspecting 5,000 units of production. Management determined that the inspecting objectives could be met without inspecting every unit. Therefore, rather than inspecting 5,000 units of production, the inspection activity was limited to a random selection of 1,000 units out of the 5,000 units of production.

   Determine the inspection activity cost per unit on 5,000 units of total production both before and after the improvement.

7. Define Benchmarking. Briefly explain the different types of Benchmarking.

SECTION – C

Answer **any three** questions. **Each** question carries **twelve** marks. **(3×12=36)**

8. Biscuits Ltd. manufactures 3 types of biscuits A, B and C, in a fully mechanized factory. The company has been following conventional method of costing and wishes to shift to Activity Based Costing System and therefore wishes to have the following data presented under both the systems for the month.

Inspection cost	₹ 73,000 p.m.
Machine-Repairs and Maintenance	₹ 1,42,000 p.m.
Dye Cost	₹ 10,250 p.m.
Selling Overheads	₹ 1,62,500 p.m.

Product	**A**	**B**	**C**
Prime Cost (₹ per unit)	12	9	8
Selling Price (₹ per unit)	18	14	12
Gross production (units/production run)	2,520	2,810	3,010
No. of defective units/production run	20	10	10
Inspection (No. of hours/production run)	3	4	4
Dye cost/production run (₹)	200	300	250
No. of machine hours/production run	20	12	30
Sales – No. of units/month	25,000	56,000	27,000

The following additional information is given :

- No accumulation of inventory is considered. All good units produced are sold.
- All Manufacturing and Selling Overheads are conventionally allocated on the basis of units sold.
- Product A needs no advertisement. Due to its nutritive value, it is readily consumed by diabetic patients of a hospital. Advertisement costs included in the Total selling overhead is ₹ 83,000.
- Product B needs to be specially packed before being sold, so that it meets competition. ₹ 54,000 was the amount spent for the month in specially packing B and this has been included in the total selling overhead cost given.

You are required to present product-wise profitability statement under ABC System and accordingly rank the products.

9. B Ltd. has decided to adopt JIT policy for materials. The following effects of JIT policy are identified :

1) To implement JIT, the company has to modify its production and material receipt facilities at a capital cost of ₹ 10,00,000. The new machine will require a cash operating cost ₹ 1,08,000 p.a. The capital cost will be depreciated over 5 years.

2) Raw material stock holding will be reduced from ₹ 40,00,000 to ₹ 10,00,000.

3) The company can earn 15% on its long-term investments.

4) The company can avoid rental expenditure on storage facilities amounting to ₹ 33,000 per annum. Property Taxes and insurance amounting to ₹ 22,000 will be saved due to JIT programme.

5) Presently there are 7 workers in the store department at a salary of ₹ 5,000 each per month. After implementing JIT scheme, only 5 workers will be required in this department. Balance 2 workers' employment will be terminated.

6) Due to receipt of smaller lots of Raw Materials, there will be some disruption of production. The costs of stockouts are estimated at ₹ 77,000 per annum.

Determine the financial impact of the JIT policy. Is it advisable for the company to implement JIT system ?

10. Zinc Ltd. supports the concept of life cycle costing for new investment decisions covering its engineering activities. The final side of this philosophy is now well established and its principles extended to all other areas of decision making.

The company is to replace a number of its machines and production manager is to torn between the X machine, a more expensive machine with a life of 12 years, and the Y machine with an estimated life of 6 years. If the Y machine is chosen, it is likely that it would be replaced at the end of 6 years by another Y machine. The pattern of maintenance and running cost differs between the two types of machine and relevant data are shown below :

	X	Y
Purchase price (₹)	19,000	13,000
Trade-in-value (₹)	3,000	3,000
Annual repair cost (₹)	2,000	2,600
Overall cost	(at year 8)	(at year 4)
	4,000	2,000

Estimated financial costs averaged over machine life	10% p.a.	10% p.a.

You are required to recommend, with supporting figures, which machine to purchase.

11. Write short note on the following :

    a) Value Engineering

    b) Experience curve in product life cycle costing

    c) Business process Re-engineering.

12. Briefly explain the advantages and drawbacks of Lean Accounting.