PG – 1305

IV Semester M.Com. Degree Examination, August/September 2025
COMMERCE
4.4 : Strategic Cost Management – II (CBCS) (2021-22)
Equivalent Paper to 4.4 : Strategic Cost Management – II (CBCS) (2014-15)

Time : 3 Hours Max. Marks : 70

SECTION – A

Answer **any seven** out of ten. **Each** question carries **two** marks. **(7×2=14)**

1. a) What is marginal cost pricing ?
   b) What is meant by "target rate of return pricing" ?
   c) State two main objectives of transfer pricing.
   d) Name two factors that affect international transfer pricing.
   e) Define experience curve.
   f) What is meant by diminishing returns in a learning curve ?
   g) What is cost of conformance ?
   h) What is the PRAISE approach in TQM ?
   i) Define benchmarking.
   j) List two types of benchmarking.

SECTION – B

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

2. Explain the role of Cost and Management Accountant in determining product pricing. Illustrate with examples.

3. Identify and analyze the key factors affecting international transfer pricing decisions.

4. Explain the main categories of prevention costs and appraisal costs in maintaining product quality.

5. Differentiate between competitive benchmarking and internal benchmarking.

P.T.O.

6. A company has furnished the following cost data :

Direct materials	₹ 11.20 per unit
Direct wages	₹ 3.00 per unit
Variable overheads	₹ 0.80 per unit
Fixed factory overheads	₹ 6,60,000 p.a.
Fixed selling and administration overheads	₹ 3,60,000 p.a.
Annual sales	4,00,000 units
Capital employed in fixed assets	₹ 9,00,000

Capital employed in current assets 50% of sales. Determine the selling price per unit to yield 20% return on capital employed.

7. XYZ Co. has observed that a 90% learning curve ratio applies to all labour related costs each time a new model enters production. It is anticipated that 320 units will be manufactured during 2024. Direct labour cost for the first lot of 10 units amounts to 1000 hours at ₹ 8 per hour. Variable overhead cost is assigned to products at the rate of ₹ 2 per direct labour hour. Your are required to determine :

   a) Total labour and labour related costs to manufacture 320 units of output.

   b) Average cost of
      i) The first 40 units produced
      ii) The first 80 units produced.

SECTION – C

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

8. Critically examine the role of the learning curve theory in decision-making under competitive and dynamic business environments.

9. *R-MART Retail Ltd.*, a large retail chain in India, was experiencing stagnation in growth despite increasing investments in technology and marketing. The management introduced the Balanced Scorecard (BSC) to improve its strategic alignment and performance tracking. They defined goals across the four perspectives – Financial, Customer, Internal Business Processes and Learning and Growth. However, implementation challenges included employee resistance, lack of understanding of non-financial KPIs and poor coordination between departments.

   Questions :

   1) Identify and explain the four perspectives of the Balanced Scorecard used by R-MART Retail Ltd.

2) What steps should the management take to overcome the implementation challenges ?

3) Evaluate the effectiveness of using BSC over traditional performance metrics in this context.

10. Your company plans to operate department D at normal capacity next year producing one lakh units of product P. Assuming no defective works, these units can be manufactured in 2.5 lakh labour hours at a cost of ₹ 0.50 per hour. Factory overhead would amount to ₹ 1,50,000 of which ₹ 50,000 would be fixed. Five units of materials can be purchased in two qualities; a high quality at ₹ 1.05 per unit or a lower quality at ₹ 0.80 per unit.

Under expected conditions, using high quality materials, 10% of the work will be defective requiring complete replacement of the materials, additional labour costs and variable overhead. Scrap materials recovered from defective production could be sold at ₹ 0.30 per unit of high quality material used.

As an alternative to this arrangement, the use of the lower quality material is being considered but this would require an extra operation to be performed on it. An additional machine and tooling would be needed at a cost of ₹ 3,000 per annum. The additional operation would take half an hour for each unit of product P produced, not taking defective work into account.

It is estimated that 20% of the work would be defective all of which would require complete replacement. Scrap material from the lower quality material could be sold for ₹ 5,000. Present information to management indicating the more profitable course of action.

11. BETAGRO Ltd. which has a system of assessment of divisional performance on the basis of Residual Income has two Divisions Alfa and Beta. Alfa has annual capacity to manufacture 15 lakhs Nos. of special component which it sells to outside customers; but has idle capacity. The budgeted residual income of Beta is ₹ 120 lakhs while that of Alfa is ₹ 100 lakhs. Other relevant details extracted from the budget of Alfa for the year are :

Sale (to outside customers)	12 lakhs unit @ ₹ 180 per unit
Variable cost per unit	₹ 160
Divisional fixed cost	₹ 80 lakhs
Capital employed	₹ 750 lakhs
Cost of capital	12%

Beta has just received a special order for which it requires components similar to the ones made by Alfa. Fully aware of Alfa's unutilized capacity. Beta has asked Alfa to quote for manufacture and supply of 3,00,000

numbers of the components with a slight modification during final processing. Alfa and Beta agree that this will involve an extra variable cost of ₹ 5 per unit.

i) Calculate the transfer price which Alfa should quote to Beta to achieve its budgeted residual income.

ii) Indicate the circumstances in which the proposed transfer price may result in a sub-optimal decision for the BETAGRO group as a whole.

SECTION – D

Answer the following question. **(1×12=12)**

12. PH Ltd. manufactures product S in departments A and B which also manufactures other products using the same machines. The particulars per unit of the products are as under :

Direct material : H – 8 kg at ₹ 3 per kg. used in Dept. A
P – 4 kg at ₹ 5 per kg. used in Dept. B

Direct labour : 2 hours at ₹ 12 per hour in Dept. A
3 hours at ₹ 10 per hour in Dept. B

Overheads	**Dept. A**	**Dept. B**
Methods of recovery	Direct labour hours	Direct labour hours
Overhead rates :		
Fixed	₹ 6 per hour	₹ 3 per hour
Variable	₹ 5 per hour	₹ 2 per hour
Value of plant and machinery	₹ 16 lakhs	₹ 8 lakhs

Variable selling and distribution overheads relating to product 'S' amount to ₹ 20,000 per month. The product requires a working capital of ₹ 3,00,000 at the target volume of 1,000 units per month occupying 25% of the practical capacity.

Required :

a) Using the return on investment pricing formula, fix the price of product 'S' to yield a contribution to cover 24% rate of return on investment.

b) If product 'S' is a well-established product in the market, what should be the basis for fixation of price ? Set the minimum price on that basis.

c) If product 'S' is a new product about to be launched in the market, what should be the basis for fixation of price ? Set the minimum price on that basis.