Reg. No.

III Semester M.Com. Degree Examination, March/April - 2021

COMMERCE

Strategic Cost Management - I

(CBCS Scheme 2018-19)

Paper : 3.4

Time : 3 Hours **Maximum Marks : 70**

Instructions to Candidates:

Answer **ALL** the sub-sections.

SECTION - A

Answer any **Seven** of the following. Each question carries **two** marks. **(7×2=14)**

1. a) What is meant by Cost Pool?

   b) What is Target Costing?

   c) Give the meaning of Business process re-engineering.

   d) What is Benchmarking?

   e) What do you mean by LCC?

   f) State the different phases of product life cycle costing.

   g) State the difference between Kaizen costing and Standard costing.

   h) Define Lean cost management.

   i) Define the term Activity based costing?

   j) What are cost drivers?

SECTION - B

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

2. Distinguish between cost control and cost reduction.

3. Explain the reasons for the adoption of ABC by manufacturing and non - manufacturing industries.

4. Explain the important features of JIT system.

5. X company is considering the purchase of a new machine for Rs. 4,00,000. It feels quite confident that it can sell the goods produced by the machine so as to yield an annual cash surplus of Rs. 1,50,000. There is however some uncertainty as to the machine's working life. Recently publish Trade Association Survey shows that members of the Association have between them owned 250 of these machines and have found the lives of the machines vary as under :

No. Of year of Machine life	3	4	5	6	7	Total
Total No. of machine having given life	20	50	100	70	10	250

Assuming a discount rate of 10% the net present value for each different machine life is as follows :

Machine life	3	4	5	6	7
N.P.V (Rs.)	(1,00,000)	(30,000)	25,000	85,000	1,30,000

You are required to advice whether the company should purchase a new machine or not.

6. Explain the different categories of Life Cycle Costs.

7. What is Kaizen costing? Bring out the benefits derived from kaizen.

SECTION - C

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

8. BEL has developed a special purpose Electronic Security Device and one introduced in the market, same expected to have a life cycle of 3 years from the time of its introduction in the market before the Device becomes obsolete due to technological advancement of other competitive products. You are required to prepare a Product life cycle budget.

The following information is available :

Particulars	Year 1	Year 2	Year 3
No. of units to be manufactured and sold	50,000	2,00,000	1,50,000
Price per device (Rs.)	500	400	350
R&D and Design cost	9,00,000	1,00,000	Nil
production cost :			
Variable cost per Device (Rs.)	200	150	150
Fixed cost (Rs.)	70,00,000	70,00,000	70,00,000
Marketing Cost :			
Variable cost per Device (Rs.)	100	70	60
Fixed Cost (Rs.)	30,00,000	25,00,000	25,00,000

Distribution Cost :

Variable cost per Device (Rs.)	50	50	50
Fixed Cost (Rs.)	10,00,000	10,00,000	10,00,000

Prepare the budgeted life cycle operating profit.

It has been further indicated that if a discount of 10% is given to customers, the units to be sold per year will increase by 5%. Would you recommend introduction of such discount?

9. Ramesh video company sells package of blank video tapes to its customer. It purchases video tapes from Mahesh Tape company at Rs. 140 a packet. Mahesh Tape company pays all freight to Ramesh video company. No incoming inspection is necessary because Mahesh tape company has a superb reputation for delivery quality merchandise. Annual demand of Ramesh Video Co. is 13,000 packages. Ramesh Video Co. requires 15% annual return on investment. The purchase order lead time is two weeks. The purchase order is passed through internet and it costs Rs. 2 per order. The relevant insurane, material handling etc. Rs. 3.10 per package per year. Ramesh Video Co. has to decide whether or not to shift JIT purchasing. Mahesh tape company agrees to deliver 100 packages of video tapes 130 times per year (5 times every two week) instead of existing delivery system, 1,000 packages 13 times a year with additional amount of Rs. 0.02 per package.

Ramesh Video Co. incurs no stockout under its current purchasing policy. It is estimated Ramesh Video Co. incurs stockout cost on 50 video tape packages under a JIT purchasing policy. In the event of a stockout Ramesh Video Co. has to rush order tape pacakges which costs Rs. 4 per package. Comment whether Ramesh Video co. to implement JIT purchasing system.

Suresh Co. also supply video tapes. It agrees to supply Rs. 13.60 per package under JIT delivery system. If video tape purchased from Suresh Co. relevant carrying cost would be Rs. 3 per package against Rs. 3.10 in case of purchasing from Mahesh tape Co. However, Suresh Co. doesn't enjoy so sterling reputation for quality. Ramesh Video Co. anticipates following negative aspects of purchasing tapes from Suresh co.

a. To incur additional inspection cost of 5 paisa per package.

b. Average stockout of 360 tapes packages per year would occur, largely resulting from late deliveries. Suresh Co. cannot rush order at short notic. Ramesh Video Co. anticipates lost contribution margin per package of Rs. 8 from stockout.

c. Customer would likely return 2% of all packages due to poor quality of the tape and to handle this return an additional cost of Rs. 25 per package.

Comment whether Ramesh Video Co. places order to Suresh Co.

10. What is JIT system? Explain briefly the merits and demerits of JIT.

11. A company produces four products viz P, Q, R and S. The data relating to production activity are as under

Product	Quantity of production	Material cost/unit (Rs.)	Direct labour hours/units	Machine hours/unit	Direct Labour cost/unit (Rs.)
P	1,000	10	1	0.50	6
Q	10,000	10	1	0.50	6
R	1,200	32	4	2.00	24
S	14,000	34	3	3.00	18

Production overheads are as under :	Rs.
Overheads applicable to machine - oriented activity	1,49,700
Overheads relating to ordering materials	7,680
Set up costs	17,400
Administration overheads for spare parts	34,380
Material handling costs	30,294

The following further informationi has been compiled:

Product	No. of set up	No. of materials orders	No. of times materials handled	No. of spare parts
P	3	3	6	6
Q	18	12	30	15
R	5	3	9	3
S	24	12	36	12

Required :

1. Select a suitable cost driver for each item of overhead expense and calculate the cost per unit of cost driver.
2. Using the concept of activity - based costing, compute the factory cost per unit of each product.

12. What is Strategic Cost Management? Elucidate the recent trends in strategic cost management for business sustainability.