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**III Semester M.Com. Degree Examination, May 2024
(CBCS Scheme) (2021 – 22 Onwards)**

COMMERCE

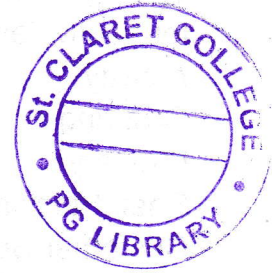
Paper – 3.4 (A&T) : Strategic Cost Management – I

Time : 3 Hours

Max. Marks : 70

SECTION – A

1. Answer **any seven** questions out of ten. **Each** question carries **two** marks. **(7×2=14)**
- What is overhead cost ? Give example.
 - Mention the role of cost accountants in strategic planning.
 - What do you mean by cost driver ? Give example.
 - What is facility level activities ? Give example.
 - What do you mean by project life cycle costing ?
 - What is Experience Curve and its effect on PLC ?
 - What is kaizen Costing ?
 - What do you mean by lean cost management ?
 - What is Value engineering ?
 - Give the meaning of JIT.



SECTION – B

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

- Write a note on Business Process Re-engineering.
- Explain the categories of product life cycle cost.
- A company proposes to replace its old and obsolete machine. Two models of machines are available as under, if company's cost of capital is 14%. Which alternative is to be preferred ? Ignore Tax.
 - Automatic machine involving an initial capital outlay of Rs. 5,00,000. The annual operating cost this model is Rs. 1,50,000. Salvage value at the end of its life of 5 years is Rs. 20,000.
 - Semi-Automatic machine involving an initial capital outlay of Rs. 3,00,000. The annual operating cost this model is Rs. 2,10,000. Salvage value at the end of its life of 5 years is Rs. 10,000.
- Production overheads of XYZ Manufacturers Pvt. Ltd. for 500 units of product X are
Machine oriented activity cost : ₹ 1,35,400
Material ordering overheads : 69,570
Machine hours are 1.50 hrs per unit and No. of material orders are 6 per unit.
Raw material cost ₹ 300 per unit and labour cost ₹ 150 per unit. What is the Total cost of X per Unit ?
- Explain how lean cost management is better than the traditional management system.
- Explain the implementation procedure of Activity Based Costing.

P.T.O.



SECTION – C

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

8. AML Ltd. is engaged in the production of three types of ice-cream products viz. Coco, Strawberry and Vanilla. The Company presently sells 50,000 units of Coco @ 25 per unit, Strawberry 20,000 units 20 per unit and Vanilla 60,000 units 15 per unit. The demand is sensitive to selling price and it has been observed that every reduction off 1 per unit in selling price increases the demand for each product by 10% to the previous level. The company has the production capacity of 60,500 units of Coco, 24,200 units of Strawberry and 72,600 units of Vanilla. The company marks up 25% of the cost of product.

The management decides to apply ABC analysis. For this purpose, it identifies four activities as store support costs. The cost driver rates are as follows.

Activity	Cost Driver Rate
Ordering	Rs. 800 per purchase order
Delivery	Rs. 700 per delivery
Shelf Stocking	Rs. 199 per hour
Customer Support and Assistance	Rs. 1.10 per unit sold

The other relevant information for the products is as follows.

	Coco	Strawberry	Vanilla
Direct Materials p.u. (Rs.)	8	6	5
Direct Wages p.u. (Rs.)	5	4	3
No. of purchase orders	35	30	15
No. of Deliveries	112	66	48
Shelf stocking hours	130	150	160

Under the traditional costing system, store support costs are charged @ 30% of prime cost.

Required :

- i) Calculate the unit cost and total cost of each product at the maximum level using traditional costing.
 - ii) Calculate the unit cost and total cost of each product at the maximum level using activity-based Costing.
9. A2Z plc. supports the concept of zero technology or life cycle costing for new investment decisions covering its engineering activities. The financial 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 the Production Manager is torn between the Exe Machine, a more expensive machine with a life of 12 years and the Wye machine with an estimated life of 6 years. If the Wye machine is chosen it is likely that it would be replaced at the end of 6 years by another Wye machine. The pattern of maintenance and running costs differs between the two types of machine and relevant data are shown below :



	Exe	Wye
Purchasing Price	19,000	13,000
Trade-in value/breakup/scrap	3,000	3,000
Annual repair costs	2,000	2,600
Overhaul costs	(at year 8) 4,000	(at year 4) 2,000

Estimated financing costs averaged over machine life 10% p.a-Exe; 10% p.a. Wye.
You are required to : recommend with supporting figures, which machine to purchase, stating any assumptions made.

10. United Video International Company (UVIC) sells package of blank video tapes to its customer. It purchases video tapes from Indian Tape Company (ITC) @ 140 a package. ITC pays all freight to UVIC. No incoming inspection is necessary because ITC has a superb reputation delivery of quality merchandise. The annual demand of UVIC is 13,000 packages. UVIC requires 15% annual return on investment. The purchase order lead time is two weeks. The purchase order is passed through Internet and it cost 2 per order. The relevant insurance, material handling 3.10 per package per year. UVIC has to decide whether or not to shift to JIT purchasing. ITC agrees to deliver 100 packages of video tapes 130 times per year (5 times every two weeks) instead of existing delivery system of 1,000 packages 13 times a year with additional amount of 0.02 per package. UVIC is no stock out under is current purchasing policy. It is estimated UVIC incurs stock out cost in 50 video tape packages under a JIT purchasing policy. In the event of a stock out, UVIC has to rush order tape packages which costs 4 per package. Comment on whether UVIC should implement JIT purchasing system.

Hindustan Tape Company (HTC) also supplies video tapes. It agrees to supply 136 per package under JIT delivery systems. If video tapes purchased from HTC, the relevant carrying cost would be 3 per package against 3.10 in case of purchasing from IC. However, HTC, doesn't enjoy so sterling a reputation for quality. UVIC anticipates following negative aspects of purchasing tapes from HTC.

- To incur additional inspection cost of 5 paisa per package.
- Average stock out of 360 tapes packages per year would occur, largely resulting from late deliveries. HTC cannot rush order at short notice. UVIC anticipates lost contribution margin per package of 8 from stock out.
- The customer would likely return 2% of all packages due to the poor quality of the tape and to handle this return an additional cost of 25 per package.

Required :

Comment whether UVIC places order to HTC.

11. Explain the influence of different classification of cost element on business strategic decision.



SECTION – D

Compulsory skill based question on subject.

(1×12=12)

12. Read the following case study and answer all the questions given below the case study. As Ahmed's father looked back after some time he wondered about how the business had kept on changing in any event, when he was unaware that changes were happening. He valued that factors both outside the business and from inside had driven the need to make continuous improvement to all parts of the business. Simply the reality he currently consistently thought of his cake baking' as 'the business' was a critical change in his own outlook that had been significant with grappling with surviving in a more competitive and demanding environment.

Ahmed's father was able to look at the many techniques his sons had introduced in cake baking and storage to see evidence of continuous improvement in how the business operated. Likewise, customer service, sales and marketing, finance and administration all demonstrated similar examples. In a future of perceived continuous change Ahmed understood that more formal processes would be needed to ensure continuous improvement in every aspect of the business if it were to not only improve but quite literally survive. Of significance here was understanding that at present he had no way of knowing if the changes they were introducing into the business were giving them a competitive advantage, retaining the status, or actually falling behind their main competition. No standards or benchmarks existed, other than what he gleaned from informal talks with others in the industry. With so much at risk they had to do better. Hence, he would like to improve hygiene cooking conditions with Muscat Bakery in Oman. Also, the decision has been made by Ahmed and his father to arrange a management consultant who specialises in the area of continuous improvement to discuss the options and processes for introducing a formal continuous improvement program into the business.

Assume you are the consultant. Based on the above case,

- I) How the PDCA a frequent four-step management method is used for continuous improvement approach in business ?
 - II) Analyze the benchmarking level followed by Ahmed, Evaluate the challenges and requisites for the mentioned benchmarking and what way will it help to get the edge over the competitors.
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