

Il Semester M.Com. (FA)/MFA Examination, July 2017 (CBCS)

Paper - 2.5 : STRATEGIC COST AND MANAGEMENT ACCOUNTING

Time: 3 Hours Max. Marks: 70

SECTION-A

- Answer any seven of the following sub-questions in about 3-4 lines each. Each sub-questions carries two marks.
 - a) What is strategic cost management?
 - b) What is imputed cost?
 - c) What is meant by value chain?
 - d) State the ways of achieving cost reduction under ABC system.
 - e) What is life cycle costing?
 - f) Explain how product price is fixed under target costing.
 - g) Distinguish between cost control and cost reduction.
 - h) What is business process re-engineering?
 - i) What are hidden costs under Project Life Cycle Costing?
 - j) What is strategic analysis of cost?

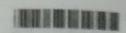
SECTION - B

Answer any four of the following in about one page. Each question carries 5 marks.

(4×5=20)

- 2. Difference between conventional method of absorbing overheads with ABC.
- 3. How do you implement target costing in an organization?
- 4. Describe the methodology of life cycle costing.
- 5. Compare value chain analysis from traditional management accounting system.

P.T.O.



- B Ltd. has decided to adopt JIT policy for materials. The following effects of JIT policy are identified.
 - a) To implement JIT, the company has to modify its production and material receipt facilities at a capital cost of Rs. 10,00,000. The new machine will require a cash operating cost Rs. 1,08,000 p.a. The capital cost will be depreciated over 5 years.
 - b) Raw material stockholding will be reduced from Rs. 40,00,000 to Rs. 10,00,000.
 - c) The company can earn 15% on its long-term investments.
 - d) The company can avoid rental expenditure on storage facilities amounting to Rs. 33,000 per annum.
 - e) Property taxes and insurance amounting to Rs. 22,000 will be saved due to JIT programme.
 - f) Presently there are 7 workers in the store department at a salary of Rs. 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.
 - g) Due to receipt of smaller lots of raw materials, there will be some disruption of production. The costs of stock outs are estimated at Rs. 77,000 per annum.

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

7. In a purely competitive market, 10,000 pocket transistors can be manufactured and sold and a certain profit is generated. It is estimated that 2,000 pocket transistors need be manufactured and sold in monopoly market to earn the same profit; profit under both the conditions is targeted at Rs. 2,00,000. The variable cost per transistor is Rs. 100 and the total fixed cost is Rs. 37,000. You are required to find out the unit selling price both under monopoly and competitive conditions.

SECTION-C

Answer any three of the following. Each question carries 12 marks.

(3×12=36)

- 8. Explain the methodology involved in business process reengineering.
- 9. Briefly explain the role of cost management in strategic planning and management control.



10. A and Co. is contemplating whether to replace an existing machine or to spend money on overhauling it. A and Co. currently pays no taxes. The replacement machine costs Rs. 90,000 now and requires maintenance of Rs. 10,000 at the end of every year for eight years. At the end of eight years it would have a salvage value of Rs. 20,000 and would be sold. The existing machine requires increasing amounts of maintenance each year and its salvage value falls each year as follows:

Year	ar Maintenance		
Present	0	40,000	
tipe products	10,000	25,000	
2	20,000	15,000	
3	30,000	10,000	
4	40.000	0	

(Note: Present value of an annuity of Rs. 1 per period for 8 years at interest rate of 15%: 4.4873; present value of Rs. 1 to be received after 8 years at interest rate of 15%: 0.3269)

The opportunity cost of capital for A and Co. is 15%.

Required: When should the company replace the machine?

11. Look Ahead Ltd. wants to fix proper selling prices for their products 'A' and 'B' which they are newly introducing in the market. Both these products will be manufactured in Department D, which is considered as a profit centre.

The estimated data are as under:

At the selflusing amount off 000 At the off the	A and a second	В
Annual Production (Unit)	1,00,000	2,00,000
Direct materials per unit	Rs. 15.00	Rs. 14.00
Direct labour per unit	Rs. 9.00	Rs. 6.00
(Direct Labour hour rate = Rs. 3)		

The proportion of overheads other than interest, chargeable to the two products are as under:

- a) Factory overheads (50% fixed) 100% of direct wages. Administration overheads (100% fixed) 10% of factory costs.
- b) Selling and distribution overheads (50% variable) Rs. 3 and Rs. 4 respectively per unit of products A and B.



c) The fixed capital investment in the Department is Rs. 50 lakhs. The working capital requirement is equivalent to 6 months stock of cost of sales of both the product. For this project a term loan amounting to Rs. 40 lakhs has been obtained from financial institutions on an interest rate of 14% per annum. 50% of the working capital needs are met by bank borrowing carrying interest at 18% per annum. The department is expected to give a return of 20% on capital employed.

You are required to: (a) Fix the selling price of products A and B such that the contribution per direct labour hour is the same for both the products. (b) Prepare a statement showing in details the overall profit that would be made by the department.

12. The budgeted overheads and cost driver volumes of XYZ are as follows:

Cost pool ove	Budgeted erheads (Rs.)	Cost Driver	Budgeted Value
Material procurement	5,80,000	No. of orders	1,100
Material handling	2,50,000	No. of movements	680
Set-up	4,15,000	No. of setups	520
Maintenance	9,70,000	Maintenance hours	8,400
Quality control	1,76,000	No. of inspection	900
Machinery	7,20,000	No. of machine hours	24,000

The company has produced a batch of 2,600 components of AX-15, its material cost was Rs. 1,30,000 and labor cost Rs. 2,45,000. The usage activities of the said batch are: material orders – 26, maintenance hours – 690, material movements – 18, inspection – 28, set ups – 25, machine hours – 1,800.

Calculate: Cost driver rates that are used for tracing appropriate amount of overheads to the said batch and ascertain the cost of batch of components using activity based costing.