



**PG-517**

10069

II Semester M.Com. (CBCS) Examination, July - 2019

**FINANCE AND ACCOUNTING**

**2.5 : Strategic Cost and Management Accounting**

Time : 3 Hours

Max. Marks : 70

**Instruction** : Answer **all** sub-sections.

**SECTION - A**

1. Answer **any seven** questions from the following. Each question carries **two** marks.

**7x2=14**

- (a) Give the meaning of Experience Curve.
- (b) Differentiate between Skimming and Penetration pricing.
- (c) State any two situations where marginal cost based pricing is suitable.
- (d) Name the 6 R's of Business Process Re-Engineering.
- (e) What is out of pocket costs ?
- (f) State the steps in Target Costing.
- (g) What do you mean by Balanced Score Card ?
- (h) Define ABC.
- (i) State any four sources of waste.
- (j) State 4 objectives of JIT.

**SECTION - B**

Answer **any four** from the following. Each question carries **five** marks. **4x5=20**

2. What are the inadequacies of traditional methods of overhead absorption ?
3. Define Target Costing. Briefly explain the benefits of Target Costing.
4. Explain the activities and phases in product life-cycle.
5. Poshith Ltd. has furnished the following cost data which is given below :  
Direct Materials - ₹ 22.40  
Direct Wages - ₹ 6.00  
Variable Overheads - ₹ 1.60  
Fixed factory overheads - ₹ 13,20,000 p.a.  
Fixed selling and administration overheads - ₹ 7,20,000 p.a.  
Annual Sales - 8,00,000 units  
Capital employed in fixed assets - ₹ 18,00,000  
Capital employed in current assets - 50% of sales  
Determine the selling price per unit to yield 20% return on capital employed.

**P.T.O.**





6. Deepika from Mysuru presently operates a plant at 80% of the normal capacity to manufacture a product only to meet the demand of Government of Tamil Nadu under a rate contract. She supplies the product for ₹ 4,00,000 and earns a profit margin of 20% on sales realisations. Direct cost per unit is constant.

The indirect costs as per her budget projections are :

Indirect costs	20,000 units 80% capacity ₹	22,500 units 90% capacity ₹	25,000 units 100% capacity ₹
Variable	80,000	90,000	1,00,000
Semi-Variable	40,000	42,500	45,000
Fixed	80,000	80,000	80,000

She has received an export order for the product equal to 20% of its present operations. Additional packing charges on this order will be ₹ 1,000.

Arrive at the price to be quoted for the export order to give her a profit margin of 10% on the export price.

7. A Company is considering cost saving project. This involves purchasing a machine costing ₹ 10,00,000, which will result in annual savings of ₹ 1,50,000 and on material costs of ₹ 80,000. The following forecasts are made of the rates of inflation each year for the next 5 years :

Direct Material Cost = 5%

Direct Wage cost = 10%

General Prices = 6%

The Cost of Capital of the Company, in monetary terms is 15%. Evaluate the project assuming that the machine has life of 5 years and no scrap value. (P.V. Factor @15% for 5 years = 0.869, 0.756, 0.657, 0.571, 0.497)

### SECTION - C

Answer **any three** from the following. Each question carries **twelve** marks.

8. Answer the following sub-questions in brief :

**3x12=36**

(a) What are the strategic cost management issues in elements of materials and labour faced by the company ? **8**

(b) Explain the advantages of JIT in brief. **4**





9. Explain in detail the role of cost accounting in strategic planning and management control.
10. Electrical Ltd., plans to introduce two products D and J in the market. These will be manufactured in Department P, which will be treated as a profit centre.

Production volumes and costs are estimated as follows :

Product	D	J
Annual production(units)	6,00,000	10,00,000
Direct material cost per unit	300	360
Direct labour cost per unit (₹ 20 per hour)	600	840

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

Factory overheads	(50% fixed)	100% of direct wages
Administration overheads	(100% fixed)	10% of factory cost
Selling and distribution overheads	(50% variable)	₹ 30 and ₹ 40 respectively per unit of D and J

The fixed capital investment in the department will be ₹ 2,500 lakhs. The working capital requirement is equivalent to six month's stock of cost of sales of both the products. To finance this project a term loan of 50% of working capital required has been obtained from a financial institution at an interest rate of 18% per annum. Department P is expected to give a return of 20% on capital employed.

**Required :**

- (a) Unit selling price for products D and J such that the contribution per labour hour (rounded up to the next higher integer), is the same for both the products.
- (b) Statement of over-all profitability expected.





11. A Machine used on a production line must be replaced at least every four years. The costs incurred in running the machine according to its age are as follows :

PARTICULARS	Age of the Machinery (in years)				
	0	1	2	3	4
Purchase Price	₹ 6,000	-	-	-	-
Maintenance	-	₹ 1,600	₹ 1,800	₹ 2,000	₹ 2,000
Repairs	-	-	₹ 400	₹ 800	₹ 1,600
Net Realisable Value	-	₹ 3,200	₹ 2,400	₹ 1,600	₹ 800

Further replacement will be identical machines with same costs. Revenue is unaffected by the age of the machine. The cost of capital is 15%. Determine optimum replacement cycle.

Present value factors at 15% for years 1, 2, 3 and 4 are 0.8696, 0.7561, 0.6575 and 0.5718 respectively. Present value of annuity at 15% for years 1, 2, 3 and 4 are 0.8696, 1.6257, 2.2832 and 2.8550 respectively.

12. Rama Company manufactures several products of varying levels of designs and models. It uses a single overhead recovery rate based on direct labour hours. The overheads incurred by the company in the first half of the year are as under :

Machine operation expenses	₹ 15,18,750
Machine maintenance expenses	₹ 2,81,250
Salaries to technical staff	₹ 9,56,250
Wages and Salaries of stores staff	₹ 3,93,750

During this period the company introduced ABC system and the following significant activities were identified.

- Receiving materials and components.
- Set-up of Machines for production runs.
- Quality inspection.

It is also determined that :

- The machine operation and machine maintenance expenses should be apportioned between stores and production activity in 20:80 ratio.
- The technical staff salaries should be apportioned between machine maintenance, set-up and quality inspection in 30:40:30 ratio.





The consumption of activities during the period under review is as under :

Direct Labour Hours worked	60,000
Direct wage rate	₹ 9/hr
Production set-ups	3,060
Materials and component consignment received from suppliers	2,940
Number of quality inspections carried out	1,920

The data relating to two products manufactured by the company during the period are as under :

Particulars	Products	
	P	Q
Direct Materials costs	₹ 9,000	₹ 6,000
Direct Labour hours	1,440	150
Direct material consignments received	72	78
Production runs	54	36
Number of quality inspections done	45	15
Quantity produced (units)	22,500	7,500

A potential customer has approached the company for the supply of 36,000 units, a component 'X' to be delivered in lots of 4,500 units per quarter. The job will involve an initial design cost of ₹ 90,000 and the manufacture will involve the following per quarter.

Direct Material costs	₹ 18,000
Direct Labour Hours	450
Production runs	9
Inspections	36
Number of consignments of direct materials to be received	30

The company may desire a mark-up of 25% on cost.

**Required :**

- Calculate the cost of products P and Q based on the existing system of single overhead recovery rate.
- Determine the cost of products P and Q using ABC system.
- Compare the sales value per quarter of component 'X' using activity based costing system.