PG – 882

II Semester M.F.A. Examination, June 2015
FINANCE AND ACCOUNTING
Paper – 2.5 : Strategic Cost and Management Accounting

Time : 3 Hours Max. Marks : 80

SECTION – A

Answer **any ten** of the following sub-question. **Each** sub-question carries 2 marks. **(10×2=20)**

1. a) What is cost accounting ?
   b) Define the concept of re-engineering.
   c) What do you mean by transfer pricing ?
   d) What is JIT ?
   e) What do you mean by overheads ?
   f) Define the term value engineering.
   g) What is product design ?
   h) Write a short note on business process.
   i) What is target costing ?
   j) What is waste ?
   k) Define the concept of cost driver.
   l) What is strategic planning ?

SECTION – B

Answer **any three** questions. **Each** question carries **five** marks. **(3×5=15)**

2. Strategic management accounting is base for strategic business decision. Comment.

3. Write an analytical note on value chain analysis.

P.T.O.

4. The following are the details of the cost of manufacture of 4000 sewing machines.

   Raw material :

Opening stock	70,000
Closing stock	9,800
Purchases	1,05,000
Factory wages	1,90,000
Factory expenses	35,000
Administrative expenses	10,000

   If the cost of labour increased by 20% and that of material by 15%. What rate should be tended for the supply of 2000 such machines so that profit earned is 10% on turnover.

5. A company is planning a new product market information suggest that the product should sell 10,000 units at Rs. 21 per unit. The company seeks to make a mark-up of 40% product cost. It is estimated that life time costs of the product will be as follows. Development costs – Rs. 50,000, Manufacturing cost Rs. 10 per unit and end of life cost Rs. 20,000.

   You are require to calculate :

   1) What is the target cost of the product ?

   2) What is the original life cycle cost per unit of the product ?

6. Write a detail note on multinational pricing.

SECTION – C

Answer **any two** questions. **Each** question carries **15** marks. **(2x15=30)**

7. What are the difference between cost management and cost accounting ?

8. What are product cost categories ? Explain in detail.

9. X Ltd., manufactures four products A, B, C and D. Output and cost data is follows :

Products	Output (Unit)	No. of products runs in the period	Materials cost per unit	Direct Labour hours per unit	Machine hour per unit
A	20	2	10	1	1
B	20	2	50	3	3
C	200	5	20	1	1
D	200	5	80	3	3

Direct labour cost is 10 per hour over head cost are as follows :

Short run variable cost	10,560
Set-up cost	14,000
Scheduling cost	10,080
Material handling cost	7,840
Total	**42,480**

Calculate production cost under,

1) Activity base costing using machine hours rate as cost driver for recovering short run variable cost and number of production runs as cost driver for recovering other overheads and
2) Traditional volume based costing.

10. ABC Company is contemplating to introduce a new products having 3 years of life. The following costs are estimated to be incurred at different stages of its life cycle.

	Rs.
Research and development cost	3,00,000
Product design cost	2,00,000
Production cost :	
First year	1,00,000
Second year	1,50,000
Third year	2,00,000
Product disposal cost (At the end of third year)	10,000

Proposed revenue from the product :

I^{st} year	1,00,000
II^{nd} year	4,00,000
III^{rd} year	8,00,000

The ABC Company's target DCF rate of return is 10% present value factor for I rupee at 10%.

1^{st} year	0.91
2^{nd} year	0.83
3^{rd} year	0.75

You are require to determine :

a) Total life cycle cost of the product

b) Assess the viability of launching the product.

SECTION – D

11. Answer the following case properly and answer the question given at the end. **(1×15=15)**

Most of the modern organization having just in time approach technique in order to rescue from sluggish profit, poor quality and productive in efficiency. However, JIT often landed for its employees benefits like employees moral and self-esteem. In addition to this, JIT may also cause company to struggle and may produce a good deal of frustration. In some cases, JIT not ensure expected results.

Require :

1) You are require to explain the problems which encounter by company while implementing a JIT System.

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II Semester M.F.A. Examination, June 2015
(CBCS)
FINANCE AND ACCOUNTS
Paper – 2.5 : Strategic Cost and Management Accounting

Time : 3 Hours Max. Marks : 70

SECTION – A

1. Answer **any seven** of the following sub-questions in about **3-4** lines **each**.

Each sub-question carries **two** marks. **(7×2=14)**

a) What is Strategic Cost Management ?

b) Define Value analysis.

c) What is Maturity in Product life cycle ?

d) What is penetration pricing policy ?

e) Define Business Process Re-engineering ?

f) What do you mean by target costing ?

g) What is Strategic Analysis of Cost ?

h) State any four objectives of JIT.

i) What is pricing policy ?

j) What is Target Rate of Return ?

SECTION – B

Answer **any four** of the following in about **one** page. **Each** question carries **5** marks. **(4×5=20)**

2. How can Business Process Re-engineering be applied to an organization ?

3. Briefly explain the methodology of Total Quality Management (TQM).

4. The Best Industries Ltd. has 2 divisions, A and B. Division A manufactures product X which it sells in outside market as well as to Division B which processed it to manufacture Z. The manager of Division B has expressed the opinion that the transfer price is too high.

   The two divisional managers are about to enter into discussions to resolve the conflict, and the manager of Division A to supply him with some information prior to the discussions.

   Division A has been selling 40000 units to outsiders and 10000 units to Division B, all at Rs. 20 per unit. It is not anticipated that these demand will change. The variable cost is Rs. 12 per unit and the fixed costs are Rs. 2 lakhs.

   The manager of Division a anticipates that Division B will want a transfer price of Rs. 18. If he does not sell to Division B, Rs. 30,000 of fixed costs and Rs. 1,75,000 of assets can be avoided. The manager of Division A would have no control over the proceeds from the sale of the assets and is judged primarily on his rate of return.

   a) Should the manager of Division A transfer its products at Rs. 18 to Division B.

   b) What is the lowest price that the Division A should accept ? Support your decision.

5. Explain the different methods used in the fixation of transfer price in the organization.

6. Barcley 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 lakhs. 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 stock holding will be reduced from Rs. 40 lakhs to Rs. 10 lakhs.

   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 p.a. Property taxes and insurance amounting to Rs. 22,000 will be saved due to JIT programme.

   e) 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.

   f) Due to receipt of smaller lots of Raw materials, there will be some disruption of production. The cost 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. Briefly explain the steps involved in the implementation of Activity Based Costing.

SECTION – C

Answer **any three** of the following. **Each** question carries **12** marks. **(3×12=36)**

8. Relevant data relating to a company are :

Particulars	P	Q	R	Total
Production and Sales (units)	60000	40000	16000	
Raw/material usage in units	10	10	22	
Raw material costs (Rs.)	50	40	22	49,52,000
Direct labour hours	2.5	4	2	3,42,000
Machine hours	2.5	2	4	2,94,000
Direct labour costs (Rs.)	16	24	12	
No. of production runs	6	14	40	60
No. of deliveries	18	6	40	64
No. of receipts	60	140	880	1080
No. of production orders	30	20	50	100

Overheads : (in Rs.)

Setup	60,000
Machines	15,20,000
Receiving	8,70,000
Packaging	5,00,000
Engineering	7,46,000

The company operates a JIT inventory policy and receives each component once per production run.

Required :

i) Compute the product cost based on direct labour hour recovery rate of return.

ii) Compute the product cost using Activity Based Costing.

9. Briefly explain the role of cost accounting in strategic planning and management control.

10. A company has prepared the following budget for the year :

Particulars	60% Level of Activity (Rs.)	80% Level of Activity (Rs.)
Raw materials	30,00,000	40,00,000
Direct wages	18,00,000	24,00,000
Factory overheads	32,00,000	36,00,000
Total	**80,00,000**	**1,00,00,000**

The policy of the company is to charge 25% on variable costs to cover profit. Raw material is in short supply and the company wants to utilize its available supply of raw materials in an optimum manner. Planned operating capacity is 80%. The company has to execute a job as per details given below :

Raw materials Rs. 40,000

Direct wages : Rs. 30,000

You are required to quote the price of the job in accordance with the policy of the company.

11. "Target costing forces an organization to 'Manage Upstream' during product planning and design strategy" explain the target costing methodology.

12. Polaris, a company engaged in decision support system (DSS), is examining the profitability and pricing policies of three of its recent engineering software packages viz., EE-46: package for electrical engineers, ME-83; package for mechanical engineers, and IE-17 : package for industrial engineers. Summary details on each package over their two-year 'infancy-to-grave' product lives are as follows .

Package	Selling price	Number of units of sales	
		Year –1	Year –2
EE-46	2500	2000	8000
ME-83	3000	2000	3000
IE-17	2000	5000	3000

Assume that no inventory remains on hand at the end of year 2. In the past two years, profitability has been mediocre. Polaris is particularly concerned with the increase in research and development costs. An analysis pointed out that for one of its most recent packages (viz., IE-17), major efforts has been made to reduce R and D costs. Praveen, the engineering software manager, collected the following life cycle revenue and cost information for EE-46, ME-83 and IE-17 packages.

Particulars	EE-46 (Rs. in 000's)		ME-83(Rs. in 000's)		IE-17 (Rs. in '000's)	
	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2
Sales revenue	5,000	20,000	6,000	9,000	10,000	6,000
Research and development cost	7,000	0	4,500	0	2,400	0
Design of product	1,850	150	1,100	100	800	160
Manufacturing	750	2,250	1,050	1,050	1,430	650
Distribution	150	600	240	360	600	360
Customer care	500	3,250	450	1,050	2,200	3,880

Required :

a) Present a product life cycle income statement for each software package.

Which package is the most profitable and which is the least profitable ?

Ignore the time value of money.

b) How do the three software packages different in their cost structure ?

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PG – 587

II Semester M.F.A. Degree Examination, June/July 2014
(Semester Scheme)
FINANCE AND ACCOUNTING
Paper – 2.5 : Strategic Cost and Management Accounting

Time : 3 Hours   Max. Marks : 80

SECTION – A   **(10×2=20)**

Note : 1) Answer **any ten** of the following sub-questions in **3** to **4** lines.

2) **Each** subquestion carries **2** marks.

1. a) What do you mean by cost accounting ?
   b) Define the term cost driver.
   c) What is product design ?
   d) What do you mean by transfer prices ?
   e) Define cost plus pricing.
   f) What is budgeting ?
   g) Define the concept of value chain.
   h) State the merits of management accounting.
   i) What do you mean by activity based costing ?
   j) What is product ?
   k) Define the concepts of target costing.
   l) What do you mean by overheads ?

SECTION – B   **(3×5=15)**

Note : 1) Answer **any three** questions.

2) **Each** question carries **5** marks.

2. What is JIT ? State its managerial benefits.
3. Write an analytical note on TQM.

4. What are the tools and techniques of cost management ? Explain.
5. Explain the usefulness of business process re-engineering.
6. What are phases in product life cycle ? Explain in brief.

SECTION – C (2×15=30)

Note : 1) Answer **any two** questions.
2) **Each** question carries **15** marks.

7. Explain the benefits and limitations of multinational pricing market based transfer prices.
8. What is value chain analysis ? Explain its managerial benefits to business.
9. XYZ Ltd., is manufacturing two products A and B, using the same equipment and similar process. An extract of the production data for these products in one period is shown below :

Particulars	**A**	**B**
Quantity produce (units)	8000	7000
Direct labour hours p.u.	1	2
Machine hours p.u.	3	1
Set ups in the period	10	40
Orders handled in the period	15	60

Overheads costs	**Rs.**
Relating to machine activity	2,20,000
Relating to production run set-ups	20,000
Relating to handling of orders	45,000
	2,85,000

You are required to calculate production overheads to be absorbed by one unit of each of the products using the following costing methods.

1) Traditional costing approach using a direct labour hour rate to absorb overheads.
2) An ABC approach using suitable cost drivers to trace overheads to products.

10. ABC Ltd., sells Ice cream cones in a variety of flavours. The followings are the data available in organisation (data relating to one week)

Revenue (5000 cones @ Rs. 5 each)		25,000
Cost of ingredients	Rs. 4,000	
Store attendant	Rs. 6,000	
Rent	Rs. 7,000	17,000
Pre tax income		**8,000**

The manager estimates that, if she were to increase the price of the cones from Rs. 5 to 5.18 each, weekly volume would be cut to 4250 cones due to completion from competitors.

You are require to estimate the profit-maximizing price per cone.

SECTION – D (1×15=15)

Note : 1) Read the following case and answer to the questions given at the end of the case.

11. Company 'A' manufactures calculators. If planned to introduce a new calculators modeled "AA", if is expected to have life cycle of 3 years. According to market research, customers will be prepared to pay $ 110 per "AA". The following information is given about "AA".

Particulars	**Year ($)1**	**Year ($) 2**	**Year ($) 3**
Unit manufactured and sold	7,000	30,000	15,000
R & D costs	8,00,000	–	–
Marketing costs	1,00,000	50,000	20,000
Training costs	7,00,000	30,00,000	15,00,000
Disposal costs	–	–	1,00,000

Questions :

1) Calculate cost per unit of "AA" and comment on the suggested price.
2) If, cost per unit of "AA" is higher than what the customers would be willing to pay ? Explain.

II Semester M.F.A. Degree Examination, July 2012
FINANCE AND ACCOUNTING
Paper-2.5 : Strategic Cost and Management Accounting

Time : 3 Hours Max. Marks : 80

SECTION – A (10×2=20)

Answer **any ten** of the following sub-questions. **Each** question carries **2** marks.

1. a) What do you mean by cost accounting ?
   b) Define the concept of cost plus pricing.
   c) What is value engineering ?
   d) Write a note on life cycle costing.
   e) What is fixed cost ?
   f) What do you mean by value chain analysis ?
   g) Write a note on cost drivers.
   h) Define the concept of product design.
   i) What is business process re-engineering ?
   j) What are the merits of value analysis and value engineering ?
   k) Define concept of target costing.
   l) Define the concept of overheads.

SECTION – B (3×5=15)

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

2. Strategic cost accounting is a tool for cost control. Comment.
3. What are the managerial benefits of activity base costing ? Explain.

P.T.O.

4. The capacity usage ratio and the capacity utilization ratio in respect of a machine for a particular period (i.e. 2011, March) is 90% and 80% respectively. The total available working hours in the month of March, 2011 are 200 hours.

   The idle-time card reveals as follows :

   Waiting for material – 10 hours

   Waiting for tools – 6 hours

   Break down – 10 hours

   Report the idle time cost to the management, if hourly fixed costs of the machine amount to Rs. 4.25 and operator is paid Re. 0.75 per hour.

5. XYZ Engineering Factory consumed 50,000 units of a component per year. The ordering, receiving and handling costs are Rs. 3 per order while the tracking costs are Rs. 12 per order. Further details are as follows; deterioration and obsolescence cost Re. 0.004 per unit per year; storage cost Rs. 1,000 per year for 50,000 units. Calculate the EOQ.

6. What are the ABC cost drivers and cost pools ? Explain.

SECTION – C **(2×15=30)**

Answer **any two** questions from the followings, **each** question carries **15** marks.

7. ABC organisation manufactures a product involving the assembly of some parts purchased and others worked from raw-materials. The plant has been operating at an even rate throughout the year on one-eight hours shift, producing 500 units per month. The cost for the past year as follows :

Raw materials	–	Rs. 1,60,000
Purchased parts	–	Rs. 1,00,000
Direct wages	–	Rs. 3,00,000
Variable overheads	–	Rs. 70,000
Fixed overheads	–	Rs. 1,20,000
		7,50,000

At this point, the sales department wanted to know the minimum price to be quoted for an order of 3000 additional units to be produced and delivered at the rate of 250 units each month for the next twelve months. No additional selling and administration expenses will be incurred if, the order is accepted and the management wants a minimum profits of 5% on the selling price.

Any additional raw materials purchase can be made at a saving of 5% of cost of such materials. Labour requirements above the present one shift can be secured only at an increase of 10% over present rate. Total variable overheads are expected to increase by 60% due to the increase in volume, and fixed production overheads will go up by Rs. 9,000 only.

From the above information you are required to prepare statement showing details of price calculating for the new orders.

8. What is the role of cost accounting in strategic planning ? Explain in detail.

9. Write a analytical note on different elements of strategic cost management.

10. The relevant data relating to company are :

Particulars	**Products**			
	A	**B**	**C**	**Total**
Production and Sales (units)	60,000	40,000	16,000	–
Raw material use in units	10	10	22	–
Raw material costing	Rs. 50	Rs. 40	Rs. 22	24,76,000
Direct labour hours	2.5	4	2	3,42,000
Machine hours	2.5	2	4	2,94,000
Direct Labour cost	Rs. 16	Rs. 24	Rs. 12	–
No. of production runs	6	14	40	60
No. of deliveries	18	6	40	64
No. of receipts	60	140	880	1080
No. of production orders	30	20	50	1000

Overheads :

Set up	Rs. 60,000
Machines	Rs.15,20,000
Receiving	Rs. 8,70,000
Packing	Rs. 5,00,000
Engineering	Rs. 7,46,000

The company operates a JIT inventory policies and recieves each components once per production run.

Required

1) Compute the product cost based on direct-labour-hours recovery rate of overheads.

2) Compute the products costs using ABC.

SECTION – D **(Compulsory)** **(1×15=15)**

Analyse the following case properly and answer the question given at the end of the case.

11. Most of the organization have viewed, JIT as a tool – a knight in shining armor which promises rescue from sluggish profits, poor quality, and productive inefficiency. It is often landed for its beneficial effects on employees morale and selfesteem. Yet JIT may also cause a company to struggle and may produce a good deal of frustration. In some cases, JIT appears to deliver less than its reputation seems to call for.

Required :

From the above case, you are required to discuss limitations and problems that companies may encounter when implementing a JIT system.

PG – 659

II Semester M.F.A. Degree Examination, July/August 2011
(Semester Scheme)
Finance and Accounts
Paper – 2.5 : STRATEGIC COST AND MANAGEMENT ACCOUNTING

Time : 3 Hours   Max. Marks : 80

SECTION – A

1. Answer **any ten** of the following sub-questions. **Each** question carries **two** marks. **(10×2=20)**

   a) Define committed fixed cost.

   b) What do you mean by cost driver ?

   c) What is Incremental cost ?

   d) Define Activity Based Costing.

   e) What do you mean by value engineering ?

   f) What is sunk cost ?

   g) Define target costing.

   h) Define EOQ.

   i) What is meant by cost plus pricing ?

   j) What do you mean by period cost ?

   k) Define transfer pricing.

   l) Define TQM.

SECTION – B

Answer **any three** questions which carries **five** marks **each.** Answer to theory question should **not** exceed **one** page. **(3×5=15)**

2. What is cost analysis ? How it is useful in decision making ?

3. In transfer pricing, what is common conflict between a division and a company as a whole ?

P.T.O.

4. What is performance budgetting and what are its requisites ?

5. Following information relating to a type of raw-material is 'Variable'

Annual demand	2,400 units
Unit price	Rs. 2.40
Ordering cost per order	Rs. 4.00
Storage cost	2 % p.a.
Interest rate	10 % p.a.
Lead time	Half - month

Calculate EOQ and total annual Inventory cost in respect of the particular raw materials.

6. A housewife is looking at ways of producing domestic hot water and considers two possibilities - an electric immersion heater having an installation cost of Rs. 160 and estimated annual electrical charges of Rs. 200 and a gas boiler with an installation cost of Rs. 760 with annual fuel bills of Rs. 80.

Assuming yourself as a consultant to this cost - conscious - housewife, advise her suitably by comparing two systems, on the basis of (i) total expenditure and (ii) present value over a 5 years period. Take interest at a 9 %.

What will be your recommendation if you consider both the equipments for a 8 years period ?

SECTION – C

Answer **any two. Each** question carries **15** marks. Answer to theory question should **not** exceed **3** pages. **(2×15=30)**

7. What is life-cycle costing ? Explain the stages of product life cycle with suitable examples.

8. What are the areas in which activity based information is used for decision making ?

9. A company is organised in to two large divisions. Division 'A' produces a component which is used by Division 'B' in making a final product. The final product is sold for Rs. 400 each. Division A has a capacity to produce 2,000 units and the entire quantity can be purchased by Division B. Division A informed that due to installation of new machines, its depreciation cost had gone up and hence wanted to increase the price of the component to be supplied to Division B

to Rs. 220. Division B, however can buy the component from the outside market at Rs. 200 each. The variable costs of Division B in manufacturing the final product by using the component is Rs. 150 (excluding the component cost).

Present statement indicating the position of each Division and the company as a whole taking each of the following situations separately.

i) If there are no alternative used for the product facilities of 'A', will the company benefit if Division 'B' buys from outside supplies at Rs. 200 per component ?

ii) If internal facilities of A are not otherwise idle and the alternative use of the facilities will give an annual cash operating saving of Rs. 30,000 to DivisionA, should Division B purchase the component from outside suppliers ?

iii) If there are no alternative used for the production facilities of Division A and the selling price for the component in the outside market drops by Rs. 15, should Division B purchase from outside suppliers ?

iv) What transfer price would you fix for the component in each of the above circumstances ?

10. Relevant data relating to a company are :

Particulars	Products			
	P	Q	Rs.	Total
Production and Sales (Units)	60,000	40,000	16,000	-
Raw material usage in units	10	10	22	-
Raw material cost	Rs. 50	40	22	24,76,000
Direct labour hours	2.5	4	2	3,42,000
Machine hours	2.5	2	4	2,94,000
Direct labour costs	Rs. 16	24	12	-
No. of production runs	6	14	40	60
No. of deliveries	18	6	40	64
No. of receipts	60	140	880	1080
No. of production orders	30	20	50	1000

Overheads :

Particulars	Rs.
Setup	60,000
Machines	15,20,000
Receiving	8,70,000
Packing	5,00,000
Engineering	7,46,000

The company operates a JIT inventory policy and receives each components once per production run.

Required :

i) Compute the product cost based on direct labour-hours recovery rate of overheads.

ii) Compute the product cost using activity based costing.

SECTION – D (1×15=15)

Case compulsory

11. Many companies have viewed. JIT as a panacea - a knight in shining armor. Which promises rescue from sluggish profits, poor quality and productive inefficiency. It is often lauded for its beneficial effects on employee morale and selfesteem. Yet, JIT may also cause a company to struggle and may produce a good deal of frustration. In some cases, JIT appears to deliver less than its reputation seems to call for.

Required :

Discuss some of the limitations and problems that companies may encounter when implementing a JIT system.

(10)

PG – 504

II Semester M.F.A. Degree Examination, June/July 2010
(Semester Scheme)
FINANCE AND ACCOUNTING
Paper – 2.5 : Strategic Cost and Management Accounting

Time : 3 Hours Max. Marks : 80

SECTION – A (10×2=20)

1. Answer **any ten** of the following sub-questions in **3 to 4 lines. Each** sub-question carries **two** marks.

   a) Define cost control.

   b) What do you mean by strategic planning ?

   c) What is meant by product design ?

   d) Define labour turnover.

   e) Identify areas of cost management in material.

   f) What are cost pools ?

   g) Define activity.

   h) State the methods of pricing products.

   i) What is transfer pricing ?

   j) Define budgeting.

   k) Why do you think product life cycle is bell-shaped ?

   l) What do you mean by primary activities in value chain analysis ?

SECTION – B (3×5=15)

Answer **any three** questions. **Each** question carries **5** marks.

Answer to theory questions should **not** exceed **one page each**.

2. Describe various phases of product life cycle.

3. What are the processes involved in effective TQM ? Explain.

P.T.O.

4. Explain different methods of transfer pricing.

5. What are cost drivers ? Identify various cost drivers in manufacturing of sugar product.

6. Outdoor express is a large manufacturer of recreational equipment. Performance of the camping division is measured as an investment centre because the managers make all the decisions about investments in operating equipment and space. Following is financial information for the camping provision :

Average operating assets – Rs. 20,00,000

Current liabilities 5,00,000

Operating income 3,00,000

Camping division's required rate of return is 12%, but outdoor express's weighted average cost of capital is 9% and the tax rate is 30%.

a) Calculate the ROI

b) Calculate the residual income

c) Calculate EVA.

SECTION – C **(2×15=30)**

Answer **any two** questions. **Each** question carries **15** marks.

7. What are the benefits, costs and limitations of ABC and ABM ?

8. How is value chain analysis is used to improve operations ? Explain.

9. The Kurlon Ltd. manufactures a variety of hand-crafted bed frames. The company's manufacturing activities and related data for the current year follow :

Manufacturing Activity	**Estimated cost(Rs)**	**Cost Driver used as allocation base**	**Estimated volume of cost driver**
Material handling	4,00,000	No. of parts	8,00,000 parts
Cutting	12,00,000	Machine hours	40,000 hours
Assembly	30,00,000	Direct Labour Hours	1,50,000 hours
Wood Staining	13,20,000	No. of frames staind	60,000 frames

Two styles of bed frames were produced in July, a wood frame with fewer parts and a metal frame that required no staining activities. Direct labour is paid Rs. 25 per hour. Their quantities, direct labour hours, direct material cost and other details are as follow :

	Units Produced	Direct Material (Rs)	Machine Hours	No. of Parts	Direct Labour Hours
Wood Frames	5,000	6,00,000	5,000	1,00,000	6,000
Metal Frames	1,000	2,00,000	500	10,000	3,000

Compute the ABC cost allocation rates and then calculate total manufacturing costs and unit costs of the wood and metal frames.

10. Lucky Ltd. sells ice cream cones in a variety of flavours. Data for a recent week appear here

		Rs.
Revenue (1000 cones @ Rs. 1.75 each)		1,750
Cost of ingredients	640	
Rent	500	
Store attendant	600	1.740
Pretax income		**10**

The manager estimates that if she were to increase the price of cones from Rs. 1.75 each to Rs. 1.93 each, weekly volume would be cut to 850 cones due to competition from other nearby ice-cream shops.

Estimate the profit-maximising price per cone.

SECTION – D (1×15=15)

Case **(Compulsory.)**

11. Fancy Fleece developed a new outdoor wear fleece fabric that is both wind and water resistant, but retains a soft and fuzzy feel. The research and development process was more expensive than fancy's managers anticipated, and the materials in the fabric are also more expensive anticipated. The managers believe that if Fancy prices the fleece to cover total costs, no one will buy it. The marketing department held several focus groups with manufacturers who produce and sell winter jacket and pants to determine an appropriate price. The marketing department also surveyed customers who recently purchased fleece jackets to determine the amount of premium they would be willing to pay for a jacket that is both wind and water resistant. The marketing department concluded that the new fleece fabric would sell at a price that covers variable costs, but does not cover the total costs of production and development. You have been asked to help the managers decide whether to produce the fleece and how to price it if they do produce it.

    Required :

    a) What kind(s) of analysis would you perform for this decision ?
    b) Explain whether it would generally better for Fancy Fleece to use cost-based or market-based pricing.
    c) Identify uncertainties about how much it will cost to produce the fleece. List as many uncertainities as you can.
    d) Explain why the managers of Fancy Fleece cannot be certain that they would be able to sell the polar fleece to cover variable costs.

II Semester M.F.A. Degree Examination, June 2009
(Semester Scheme)
FINANCE AND ACCOUNTING
2.5 : Strategic Cost and Management Accounting

Time : 3 Hours Max. Marks : 80

SECTION – A

1. Answer any ten of the following sub-questions. Each sub-question carries two marks: (10×2=20)

   a) Define cost management.

   b) What is strategic planning ?

   c) What do you mean by value analysis ?

   d) What is BPR ?

   e) What is a cost Driver ?

   f) What is target pricing ?

   g) What is the essence of life cycle costing ?

   h) What is meant by JIT ?

   i) State the tools of cost management.

   j) What is budgeting ?

   k) State the circumstances under which transfer pricing is adopted.

   l) State the traditional method of absorption of overhead

SECTION – B

Answer any three questions which carries five marks each. Answer to theory question should not exceed one page. (3×5=15)

2. Bring out the role of cost accountant in strategic planning.

3. State the issues involved in managing labour cost.

P.T.O.

4. Differentiate between value analysis and value engineering. State the distinction between cost control and cost reduction.

5. From the following cost data given by a company determine the selling price per unit to yield 20% return on capital.

Direct materials Rs. 11.20, direct wages Rs. 3.00 and variable overheads Rs. 0.80 per unit.

Factory overheads	Rs. 6,60,000 p.a.
Fixed selling and Admn. overhead	Rs. 3,60,000 p.a.
Annual sales	4,00,000 units
Capital employed in fixed assets	Rs. 9,00,000
Capital employed in current assets	50% of sales

6. Identify the cost drivers for the following main activities of a firm
   a) Customer order processing
   b) Material planning acquisition
   c) Maintenance
   d) Production
   e) Quality control

SECTION – C

Answer any two questions. Each question carries 15 marks. Answer to theory question should not exceed 3 pages : **(2×15=30)**

7. Enumerate the ways by which the competitive advantages is achieved through ABC system.

8. Explain the factors which influence in determining prices under different approaches.

9. Division Z in a profit centre, which produces four products – A, B, C and D. Each products is sold in the external market also. Data for the period is as follows.

	A	B	C	D
Market price per unit (Rs.)	150	146	140	130
Variable cost of Production perunit (Rs.)	130	100	90	85
Labour Hours Required per unit	3	4	2	3

Product D can be transferred to division Y, but the maximum quantity that might be required for transfer is 2,500 units of D.

The maximum sale in the external market are A – 2800 units, B – 2,500 units, C – 2,300 units, D – 1600 units.

Division Y can purchase the same product at a slightly cheaper price of Rs. 125 per unit instead of receiving transfers of product D from division Z.

What should be transfer price for each unit for 2,500 units of D, if the total labour hours available in division Z are :

i) 20,000 hours ?

ii) 30,000 hrs. ?

10. Currently A B C Ltd., makes and sells four products and whose details are given below for one period.

Products	A	B	C	D
Output in units	120	100	80	120
Cost per unit	Rs.	Rs.	Rs.	Rs.
Direct materials	40	50	30	60
Direct Labour	28	21	14	21
Machine hours (per unit)	4	3	2	3

The four products are similar and are usually produced in production runs of 20 units and sold in batches of 10 units. The production overhead is carefully absorbed by using a machine hour and the total of the production overhead for the period has been analysed as follows.

	Rs.
Machine Department cost	10,430
Set up costs	5,250
Stores receiving	3,600
Inspection quality control	2,100
Materials handling and dispatch	4,620

You have ascertained that the 'cost drivers' tobe used are as listed below for the overhead costs shown :

Cost	Cost Driver
Set up costs	No. of production runs
Stores receiving	Requisitions raised
Inspection Quality control	Number of production runs
Materials handling and Dispatch	Order executed

The number of orders raised on the stores was 20 for each product and the number of orders executed was 42, each order being for a batch of 10 of a product.

You are required to

a) Calculate the total costs of each product if all overhead costs are absorbed on a machine hour basis.

b) Calculate the total costs for each product using activity based costing.

c) To calculate and list the unit product costs from figures (a) and (b) above, to show the differences.

SECTION – D

Case (Compulsory)

(1×15=15)

A Company is considering a cost saving project. This involves purchasing a machine costing Rs. 7,000 which will result in annual savings on wage costs of Rs. 1,000 and an material costs of Rs. 400.

The following forecasts are made of the rates of inflation each year for the next 5 years. Wages costs 10% material costs – 5% general price – 6%

The cost of capital of the company, in monetary terms is 15%.

Evaluate the project, assuming that the machine has a life of 5 years and no scrap value.

II Semester M.F.A. Degree Examination, June 2008
(Semester Scheme)
FINANCE AND ACCOUNTING
2.5 : Strategic Cost and Management Accounting

Time : 3 Hours Max. Marks : 80

SECTION – A

1. Answer any ten of the following sub-questions in 3 to 4 lines. Each sub-question carries two marks. (10×2=20)

a) What is strategic cost management ?

b) State the difference between cost management and management accounting.

c) What is value analysis ?

d) What is TQM ?

e) What is BPR ?

f) What do you mean by cost plus pricing ?

g) Define target costing.

h) What do you understand by life cycle costing ?

i) State the meaning of JIT.

j) What do you mean by product profitability ?

k) What is product life cycle ?

l) What do your mean by transfer pricing ?

SECTION – B

Answer any three questions which carry five marks each. Answer to theory questions should not exceed one page each. (3×5=15)

2. Explain the role of strategic cost accounting in management control.

3. Explain the managerial uses of Business Process re-engineering.

4. Describe the limitations of traditional methods of overhead absorption.

5. Explain the process of setting transfer prize.

6. The Brites Co. has furnished the following cost data

	Rs.
Direct materials	10.00
Direct wages	4.00
Variance overheads	1.00

Fixed factory overhead Rs. 5,50,000

Fixed selling and distribution overhead Rs. 3,00,000

Annual sales 4,00,000 Units

Capital employed in fixed assets 10,00,000

Capital employed in current assets 50% of sales.

Determine the selling price per unit to yield 20% return on capital employed.

SECTION – C

Answer any two from the following : (2×15=30)

7. What are cost pools and cost drivers ? Explain how an organisation establish its cost drivers.

8. Discuss the process of determining product prices under the various approaches of pricing.

9. The Timex Gadgets Ltd. manufactures travel clocks and watches. It currently allocates overhead costs using direct labour hours; but the controller has recommended an activity based costing system using the following data.

Activity	Cost driver	Costs Rs.	Activity Level Travel Clocks	Activity Level Watches
Product set-up	No. of setups	50000	10	15
Material handling and requisition	No. of parts	15000	18	36
Packaging and Shipping	No. of units shipped	30000	45000	75000
Total overhead		95000		

Required :

a) Compute the amount of over head to be allocated to each product under activity based costing.

b) Compute the amount of overhead to be allocated to each product using direct labour hours as the base. Assume that the number of direct labour hours required to assembles each unit is 0.5 per travel clock and 1.00 per watch and 45000 travel clocks and 75000 watches were produced.

c) Should the company follow the controllers recommendation.

19) After studying the following income statement for its product, the management of C Ltd. feels that a reduction in sales price may be justified.

Year ended 31.12.2000	Rs.	Rs.
Sales (units 2,00,000)		18,00,000
Variable costs	10,00,000	
Fixed costs	5,00,000	15,00,000
Profit		3,00,000

Required :

a) How much extra volume must be sold in 2001 to yield an income equal to that earned in 2000 if decreases of 5%, 10% and 15% in selling prices respectively become necessary ?

b) Why do successive price decreases of equal amounts require progressively larger increases in volume to equalise profits ?

c) With the limited information given, discuss the factors you would advises management to study before reducing the sales price.

SECTION – D

Case Compulsory : (1×15=15)

11. Division A of Better Margin Ltd. has been given a budgeted target of selling 200000 components COM 21. It manufactures at a price which would fetch a return of 25% on the average assets employed by it. The following figures are relevant.

	Rs.
Fixed overhead	4,00,000
Variable cost (per unit)	1.00
average assets :	
Debtors	2,00,000
Stocks	6,00,000
Plant and other assets	4,00,000

However, the marketing Deptt. of the company findout by a survey hat the maximum number of COM 21 the market can take at the proposed price is only 140000 units.

Fortunately Division B is willing to purchase the balance 60000 Units. The manager of Division A is willing to sell to Division B at a concessional price of Rs. 4 per unit. But the manager of Division B is ready to purchase at Rs. 2.25 only per unit as he feels that it can be made in the division itself at that price.

Rather than sell to Division B; the manger of Division A feels that he will restrict the activity to of his Division to manufacture and sale of 1,40,000 units only. By this he could reduce Rs. 80000 in stocks, Rs. 120000 of plant and other assets and Rs. 40000 in selling and distribution expenses. As a management accountant you are asked to work out the various computations and show that the selling 60000 COM 21 to Division B at Rs. 2.25 per unit would be in the interest of the organisation or not.

II Semester M.F.A. Degree Examination, May/June 2007
(Semester Scheme)
COMMERCE
2.5 : Strategic Cost and Management Accounting

Time : 3 Hours Max. Marks

SECTION – A

1. Answer any ten of the following sub-questions in 3 to 4 lines. Each sub-question carries two marks :

   a) Define the term strategy.

   b) What is Strategic Management Accounting ?

   c) What is strategic planning ?

   d) What is meant by Strategic Cost Analysis ?

   e) What do you mean by competetive advantage ?

   f) What is cost control ?

   g) When is transfer pricing adopted ?

   h) What is a cost pool ?

   i) What are costs which are prominent at growth stage of a product ?

   j) State the essence of JIT costing.

   k) What is meant by value engineering ?

   l) State any two benefits of ABC.

SECTION – B

Answer any three questions. Each question carries five marks. Answer to each theory question should not exceed one page :

2. Differentiate between cost pools and cost drivers.

3. State the role of cost accounting in strategic planning and management control.

4. State the behavioural aspects of cost in the life cycle of a product.

P.T.O.

5. What are the elements involved in Value Analysis and Value Engineering ?

6. A company has the capacity of production of 80,000 units and presently sells 20,000 units at Rs. 100 each. The demand is sensitive to selling price and it has been observed that with every reduction of Rs. 10 in selling price the demand is doubled. What should be the target cost at full capacity if profit margin is taken as 33 1/3% on cost ?

SECTION – C

Answer any two from the following : (2×15=3

7. How ABC system supports corporate strategy ? Bringout the uses of ABC in a firm.

8. Enumerate the main objectives of transfer pricing. Briefly explain the methods of determining transfer prices.

9. Describe the elements of costs which affect the Strategic Cost Management.

10. A small scale unit has a capacity to make 10,000 units of a product. The actual cost in 2004 was given below :

Direct materials Rs. 50 per unit; Direct labour Rs. 12 per unit, Variable overheads Rs. 4.50 per unit, Fixed factory overhead Rs. 25,000.

The company's budget for the next year was to be prepared with the following data :

i) A wage agreement is entered into where the wage will be linked to an index. The labour rate presently comprises of 50% basic pay and balance as D.A. The formula is to link the existing D.A. to price index.

ii) The sale is estimated to touch 80% capacity.

iii) The average fixed net assets will be Rs. 2,25,000 and working capital would be 25% of value of sales.

iv) Company expects a return of 15% on Capital employed.

v) The price indices for the base period 2004 and for 2005 are as follows :

	2004	2005
Cost of living index for D.A.	420	525
Copper	450	600
Aluminium	400	480

The material used is 60% copper and 40% aluminium.

Determine the price at which product is to be sold in 2005.

SECTION – D

(Case) (1×15=15)

11. ...ck Ltd., makes a product, which has standard marginal cost, as below : Direct materials Rs. 50.00, Direct wages Rs. 37.50 and Variable production overhead Rs. 6.25.

The annual budget further indicates output in units 80,000.

		Rs.
Fixed overhead :	Production	50,00,000
	Administration	30,00,000
	Marketing	25,00,000
		1,05,00,000

The company's management desires much better results than projected and wants the following proposals for improved performance to be considered :

a) Reduce the selling price by 10% with the prospect of production and sale increasing by 25%. The fixed production overhead will increase by Rs. 2,50,000 and fixed marketing overhead by Rs. 1,25,000.

b) Increase the selling price by 10 percent and increase advertising expenditure from the present outlay of Rs. 5,00,000 to Rs. 25,00,000. Sales will go up to 90,000 units. Fixed production overhead will be up by Rs. 1,25,000 and marketing overhead by Rs. 1,00,000.

c) A profit of Rs. 30,00,000 is desired. A 10 percent increase in sales can be achieved by increasing advertisement expenditure by Rs. 18,00,000. The fixed production overhead will go up by Rs. 1,25,000 and marketing overhead by Rs. 85,000. What is the selling price required for achieving the desired profit ?

II Semester MFA Examination, June 2006
(Semester Scheme)
COMMERCE
Paper 2.5 : Strategic Cost and Management Accounting

Time : 3 Hours Max. Marks : 80

SECTION – A

1. Answer any ten of the following sub-questions in 3 to 4 lines. Each sub-question carries two marks. (10×2=20)

   a) What do you understand by strategic planning ?

   b) What do you understand by strategic cost accounting ?

   c) State the meaning of product design.

   d) What is value analysis ?

   e) What is TQM ?

   f) State the meaning of BPR.

   g) What do you understand by value engineering ?

   h) State the meaning of overhead.

   i) What is cost-plus pricing ?

   j) State the meaning of target costing.

   k) What is product life cycle ?

   l) What do you understand by value chain ?

SECTION – B

Answer any three questions, which carry five marks each. Answers to theory questions should not exceed one page each. (3×5=15)

2. Explain the role of cost accounting in management control.

3. Describe the characteristics and steps in implementation of ABC.

4. Explain the meaning and objectives of JIT.

P.T.O.

SECTION – D (Compulsory)
(Case Analysis) 15

Ever-green Ltd. pursues a policy of permitting each of its divisions to operate essentially as an independent units. Divisional Managers are free to determine their own sources of supply and to set their own prices.

The details relating to a manufacturing division 'A' are given below:

Particulars	Product manufactured in Division A		
	X	Y	Z
External Market price per unit (Rs.)	48	46	40
Variable cost per unti (Rs.)	33	24	28
Labour Hrs/unit	3	4	2

Each product has external market. The maximum external sales are:

Product X : 800 units

Product Y : 500 units

Product Z : 300 units

Product Y can be transferred to another manufacturing division, viz, B but the maximum quantity that might be required for transfer is 300 units of Y.

Instead of receiving transfer of product Y from Division A, Division B could buy similar product in the open market at a price of Rs. 45 per unit.

Assume that Division 'A' is a profit centre.

Required:

a) What transfer price do to suggest for each unit of product to be transferred from Division A to Division B; if total labour hours available in Division 'A' are 3800 ?

b) Will your answer change; if there are 5600 hours available in Division 'A' ?

The working capital requirement of product M based on a target value of output of 1000 units per month is estimated at Rs. 1,24,000 p.a.

Required :

a) Indicate the bottom line selling price of product M assuming that :

   i) Price is adequate to ensure contribution equivalent to 30% on investment made.

   ii) The product is a new product about to be introduced in the market.

b) Calculate the selling price in a situation where product is well established in the market so as to field return of 18% on investment.

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

Product	Qnty. of Prdn.	Material cost/unit	Direct labour hours/unit	Machine hrs/unit	Direct labour cost/unit
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 :

i) Overheads applicable to machine oriented activity Rs. 1,49,700

ii) Overheads relating to ordering materials Rs. 7,680

iii) Set up costs Rs. 17,400

iv) Administration overheads for spare parts Rs. 34,380

v) Material handling costs Rs. ~~34,380~~ 30294

The following further information have been compteted :

Product	No. of set ups	No. of material 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 drives for each item of overhead expense and calculate the cost per unit of cost drives.

2) Using the concept of activity based costing, compute the factory cost per unit of each department.

SECTION – D

Case Compulsory :

11) A machine used on a production line must be replaced atleast every four years. The costs incurred in running the machine according to its age are : 15

Particulars	Age of machine (Years)				
	0	1	2	3	4
Purchase price	30,000				
Maintenance		8000	9000	10000	10000
Repairs			2000	4000	8000
Net realisable value		16000	12000	8000	4000

Future replacement will be indentical machines with the same costs. Revenue is unaffected by the age of the machine. Assume there in no inflation and ignore tax. The cost of capital is 15%. Determine the optimum replacement cycle.

Present value factors @ 15% for years 1, 2, 3, and 4 are :

Years	P.V. factor	P.V. f annuity
1	0.8696	0.8696
2	0.7561	1.6257
3	0.6575	2.2832
4	0.5718	2.8550

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II Semester MFA Examination, June 2006
(Semester Scheme)
COMMERCE
Paper 2.5 : Strategic Cost and Management Accounting

Time : 3 Hours Max. Marks : 80

SECTION – A

1. Answer any ten of the following sub-questions in 3 to 4 lines. Each sub-question carries two marks. (10×2=20)
   a) What do you understand by strategic planning ?
   b) What do you understand by strategic cost accounting ?
   c) State the meaning of product design.
   d) What is value analysis ?
   e) What is TQM ?
   f) State the meaning of BPR.
   g) What do you understand by value engineering ?
   h) State the meaning of overhead.
   i) What is cost-plus pricing ?
   j) State the meaning of target costing.
   k) What is product life cycle ?
   l) What do you understand by value chain ?

SECTION – B

Answer any three questions, which carry five marks each. Answers to theory questions should not exceed one page each. (3×5=15)

2. Explain the role of cost accounting in management control.
3. Describe the characteristics and steps in implementation of ABC.
4. Explain the meaning and objectives of JIT.

P.T.O.

5. A company has furnished the following cost data :

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

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

6. Describe the strategic cost management issues involved in various elements of cost.

SECTION C

Answer any two from the following. (2×15=30)

7. Explain how the ABC is superior to traditional method of overhead absorption.
8. Briefly describe the various approaches for determining the prices of products.
9. A company manufactures product M in addition to other products by using the same machines in depts A and B. The cost data are as under :

Direct material	P 4 kgs @ Rs. 6 per kg used in Dept. A
	Q 8 kgs @ Rs. 2.50 per Kg added in Dept. B
Direct labour	2 hours @ Rs. 4 per hour in Dept. A
	3 hours @ Rs. 3 per hour in Dept B

Overheads

Basis overhead recovery	Dept. A Per rupee of direct material P	Dept. B Per direct labour hour
Recovery rate @ 80% of Practical capacity		
Variable	0.80	2.00
Fixed	2.20	3.00
Depreciation component of fixed overhead rate	0.80	0.10
Other relevant data :		
Net plant and equipment value	70,00,000	1,20,000
Total depreciation per month	80,000	1,000

II Semester M.F.A. Examination, May/June 2005
(2002-03 Scheme)
COMMERCE
2.5: Strategic Cost and Management Accounting

Time: 3 Hours Max. Marks: 80

SECTION–A (2×10 = 20)

1. Answer any ten of the following sub-questions in 3 to 4 lines. Each sub-question carries two marks.

a) Define Strategic Management Accounting.

b) What is Strategic Cost ?

c) How cost driver is different from cost pool ?

d) What is ABM ?

e) What is meant by Kaizan costing ?

f) What is Back flush accounting ?

g) State the essence of TQM.

h) What is BPR ?

i) State the object of value analysis.

j) What is the philosophy of JIT ?

k) State the traditional methods of overhead absorption.

l) Define value engineering.

SECTION–B

Answer any three questions, which carry five marks each. Answer to theory question should not exceed one page. (3×5 = 15)

2. Distinguish between cost management and cost accounting.

3. Briefly state the characteristics of product life cycle.

4. State the benefits from adopting ABC system.

P.T.O.

5. In a company, X & Y are two divisions. X produces a single product ... to only Y to use into Y's product. The relevant costs and revenue are as ...

Quantity (Units)	Costs to X	Revenue of Y (after deducting own variable c...
	Rs.	Rs.
100	150	300
200	240	400
300	320	490
400	400	570
500	510	640

You are required to calculate the appropriate transfer price per unit between division X and Y and how many units should be produced.

6. Bring out the managerial uses of life cycle costing.

SECTION C (2×15=30)

Answer any two questions. Answer to a theory question should not exceed 3 pages. Each question carries 15 marks.

7. How activity based costing system supports corporate strategy ? Bring out the use of ABC in a company.

8. What is product life-cycle ? Explain the costs involved in different stages of product life-cycle.

9. An engineering company is considering to replace or repair a particular machine, which has just broken down. Last year this machine costed Rs. 20,000 to run and maintain. These costs have been increasing in real terms in recent years with the age of the machine. A further useful life of 5 years is expected, if immediate repairs of Rs. 19,000 are carried out. If the machine is not repaired it can be sold immediately to realise about Rs. 5,000 (ignore loss/gain on such disposal.)

Alternatively, the company can buy a new machine for Rs. 49,000 with an expected life of 10 years with no salvage value after providing depreciation on straight line basis. In this case, running and maintenance costs will reduce to Rs. 14,000 each year and are not expected to increase much in real terms for a few years at least. The company regard a normal return of 10% p.a. after tax as a minimum requirement on any new investment. Considering capital budgeting techniques, which alternative will you choose ? Take corporate tax rate at of 50% and assume that depreciation on straight line basis will be accepted for tax purposes also.

Given cumulative present value of Re. 1 p.a. at 10% for 5 years Rs. 3.791 and 10 years Rs. 6,145.

10. A manufacturing co. has been using a cost system that allocates all factory overhead costs to products based on 350% of direct labour cost. The company has just decided to use ABC system that treats indirect costs to products based on the consumption of major activities as indicated below:

Activity	Annual cost driver quantity	Cost Rs.	Product cost driver consumption
Labour	Rs. 3,00,000	30,000	Rs. 10,000
Machining	20000 hrs	5,00,000	800 hrs
Setup	10000 hrs	1,00,000	100 hrs
Production order	2000 orders	2,00,000	12 orders
Material handling	1000 requisitions	20,000	5 requisitions
Parts administration	12000 parts	4,80,000	18 parts

You are required to compare the annual costs of the product using both the traditional volume based and the new ABC system.

SECTION D

Case (Compulsory) 15

11. Perfect Pistons Ltd. produces 60000 pistons per annum for its present company Perfect Motors Ltd. The Pistons are sold to Perfect Motors at Rs. 200 per unit. The variable cost per Piston in Rs. 180. The annual fixed cost of Perfect Pistons Ltd. is Rs. 15 lakhs and it is currently operating at 60% capacity.

The company desires to respond to an export enquiry for 30000 Pistons of the type it is currently manufacturing. The company's aim is to improve capacity utilisation and avoid losses.

You have to take note of the following benefits that will accrue to the export transaction, while determining the FOB price to be quoted.

i) Export incentive by way of cash assistance at 10% of FOB value of exports.

ii) Reimbursement of excise of manufacturing input by way of 5% drawback of duty of F.O.B. value of exports.

iii) Entitlement of import licence to the extent of 10% of FOB value of exports. The import licence can either be sold at a premium of 10% or it can be utilized to import certain critical auto components that will yield a 30% profit on cost.

Recommend the base minimum price that the company should quote, in order to break-even, assuming:

a) it sells the import licence in the market

b) it imports components against the licence and sells them for profit.