PJ – 532

III Semester M.Com. Degree Examination, January 2019
(CBCS)
COMMERCE
Paper – 3.4 AT : Strategic Cost Management – I

Time : 3 Hours Max. Marks : 70

***Instruction** : Answer **all** the sub-Sections.*

SECTION – A

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

1. a) What are the techniques of cost control ?

   b) What is value engineering ?

   c) What is cost pool and cost object ?

   d) Distinguish between Kaizen Costing and Value Engineering.

   e) Define cost and value.

   f) What are the categories of project life cycle ?

   g) What is lean cost management ?

   h) What is bench marking ?

   i) State any four benefits of PLCC.

   j) What are cost drivers ?

SECTION – B

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

2. Company X is forced to choose between two machines A and B. The two machines are designed differently, but have identical capacity and do exactly the same job. Machine A costs Rs 1,50,000 and will last for 3 years. It costs Rs. 40,000 per year to run. Machine B is an 'economy' model costing only Rs. 1,00,000, but will last only for 2 years, and costs Rs 60,000 per year to run. These are real cash flows. The costs are forecasted in rupees of constant purchasing power. Ignore tax. Opportunity cost of capital is 10%. Which machine should Company X buy ?

P.T.O.

3. Ever Forward Ltd. is manufacturing and selling two products : Splash and Flash, at selling prices of Rs. 3 and Rs. 4 respectively. The following sales strategy has been outlined for the year 2018.
   - Sales planned for year will be Rs. 7.20 lakhs in the case of Splash and Rs. 3.50 lakhs in the case of Flash.
   - Break-even is planned at 60% of-the total sales of each product.
   - Profit for the year to be achieved is planned at Rs. 69,120 in the case of Splash and Rs. 17,500 in the case of Flash. This would be possible by launching a cost reduction programme and reducing the present annual fixed expenses of Rs. 1,35,000 allocated as Rs. 1,08,000 to Splash and Rs. 27,000 to Flash.
   - The selling price of Splash and Flash will be reduced by 20% and 12.5% respectively to meet the competition.

     You are required to present the proposal in financial terms giving clearly the following information.
   - Reduction in fixed expenses product-wise that is envisaged by the cost Reduction Program.

4. A company is considering the purchase of a new machine for Rs. 3,50,000. It feels quite confident that it can sell the goods produced by the machine so as to yield an annual cash surplus of Rs. 1,00,000. There is however some uncertainty as to the machine's working life. A 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 machines 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.)	(1,01,000)	(33,000)	29,000	86,000	1, 37,000

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

5. Explain the role of cost accounting in strategic planning.

6. Explain the problems of overhead absorption in traditional system.

7. What are the drawbacks of lean cost management ?

SECTION – C

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

8. Altra Video Company sells package of blank Video tapes to its customers. It purchases video tapes from Yash Tape Company at Rs. 150 per packet. Yash Tape Company pays all freight to Altra Video Company. No incoming inspection is necessary because Yash Tape Company has a superb reputation for delivery of quality merchandise. Annual demand of Altra Video Company is 15,600 packages. Altra Video Company requires 10% annual return on its investment. The purchase order Lead time is 2 weeks. The purchase order is passed through internet and it costs Rs. 20 per order. The relevant insurance, material handling etc. is Rs. 10 per package per year.

   Altra Video has to decide whether or not to shift to JIT purchasing. Yash Tape Company agrees to deliver 100 packages of Video tapes 156 times per year (6 times every 2 weeks) instead of existing delivery system of 1,200 packages 13 times a year, with additional amount of Re.0.05 per package. Altra Video Company incurs no stock out under its current purchasing policy. It is estimated that Altra Video Company will incur stock out cost on 50 video tape packages under a JIT purchasing policy. In the event of stock out, Altra video company has to rush order tape packages, which costs Rs. 8 per package. Comment whether Altra Video Company should implement JIT purchasing system.

   Ram Co. also supplies video tapes. It agrees to supply at Rs. 145 per package under JIT delivery system. If video tape is purchased from Ram Co. relevant carrying cost, would be Rs. 9 per package against Rs. 10 in case of purchasing from Yash Tape Company. However Ram Co. does not enjoy a sterling reputation for quality; Altra Video Company anticipates the following negative aspects of purchasing tapes from Ram Co.

   1) Incurring additional inspection cost of Rs. 0.05 per package.
   2) Average stock out of 360 tape packages per year would occur, largely resulting from late deliveries. Ram Co. cannot rush order at short notice. Altra Video Company anticipates lost contribution margin per package of Rs. 10 from stock out.
   3) Customers 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 would be incurred.

   Comment on whether Altra Video Company can place an order with Ram Co.

9. 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/ unit	Machine hours/unit	Direct Labour cost/unit (Rs.)
P	1000	10	1	0.50	6
Q	10000	10	1	0.50	6
R	1200	32	4	2.00	24
S	14000	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 information 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 :

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

10. Critically evaluate strategic cost management issues in different elements of cost.

11. Elucidate the procedure for implementation and evaluation of kaizen costing

12. Explain the benefits and problems of adoption of ABC system compared to traditional system.