

D 12350

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Name.....

Reg. No.....

**THIRD SEMESTER M.B.A. DEGREE (REGULAR/SUPPLEMENTARY)  
EXAMINATION, JANUARY 2022**

M.B.A.

BUS 3C 18—STRATEGIC COST MANAGEMENT

(2016 Scheme)

Time : Three Hours

Maximum : 36 Weightage

**Part A***Answer all questions.**Each question carries 1 weightage.*

1. What is 'absorption of overheads' ?
2. Define 'by-product' and 'joint products'.
3. State the advantages of maintaining a cost ledger.
4. What is a profit graph ?
5. What do you mean by Standard Cost ?
6. What are the benefits of activity based costing ?

(6 × 1 = 6 weightage)

**Part B***Answer any four questions.**Each question carries 3 weightage.*

7. Explain the role played by 'Material Control' in cost control and cost reduction.
8. Discuss the methods used for apportioning the joint costs in case of joint products.
9. The effect of price reduction is always to reduce the profit/volume ratio, to raise the break-even point and to shorten the margin of safety. Explain and illustrate by numerical example.
10. What is a 'Cost Driver' ? What is the role of cost driver in tracing cost to products ?
11. A Company budgets for a production of 1,50,000 units. The variable cost per unit is Rs.14 and fixed cost per unit is Rs. 2 per unit. The company fixes the selling price to fetch a profit of 15% on cost. Required, (A) What is the break-even point ? (B) What is the profit/volume ratio ? (C) If the selling price is reduced by 5%, how does the revised selling price affects the Break-Even Point and the Profit/Volume Ratio ? (D) If profit increase of 10% is desired more than the budget, what should be the sales at the reduced price ?

**Turn over**

12. A Company has two Plants at Locations I and II, operating at 100% and 75% of their capacities respectively. The company is considering a proposal to merge the two plants at one location to optimize available capacity.

The following details are available in respect of the two plants, regarding their present performance/operation :

<i>Particulars</i>		<i>Location I</i>	<i>Location II</i>
Sales [Rs.in lakhs]	...	200	75
Variable Costs [Rs. in lakhs]	...	140	54
Fixed Cost [Rs. in lakhs]	...	30	14

For decision-making purposes, you are required to work out the following information :

- I. The capacity at which the merged plan will break-even.
- II. The profit of the merged plant working at 80% capacity III. Sales required if the merged plant is required to earn an overall profit of Rs. 22,00,000.

(4 × 3 = 12 weightage)

### Part C

*Answer any three of the following.  
Each question carries 4 weightage.*

13. A2Z p.l.c. 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 :

		<i>Exe</i>	<i>Wye</i>
Purchase price	...	19,000	13,000
Trade-in value/brakeup/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.

14. XYZ Ltd. is manufacturing three products, A, B and C. All the products use the same raw material which is available to the extent of 61,000 kg. only.

The following information is available from the books and records of the company.

<i>Particulars</i>		<i>Product A</i>	<i>Product B</i>	<i>Product C</i>
Selling price per unit	...	100	140	90
Variable cost per unit	...	Rs. 75	Rs. 110	Rs. 65
Raw material requirement per unit [kg.]	...	5	8	6
Market demand - units	...	5,000	3,000	4,000

Advise the company about the most profitable product mix and also compute the amount of profit resulting from such product mix if the fixed costs are Rs. 1,50,000.

15. Explain the various classifications of costs and its elements.  
 16. Discuss the method of service cost analysis.  
 17. What is kaizen costing ? What are its benefits ?

(3 × 4 = 12 weightage)

#### Part D

*Answer the following.  
 Compulsory question.*

18. M/s. PQR Ltd. produces only two products : Computer Parts and Cell-Phones. The company uses a normal cost system and overhead costs are currently allocated using a plant-wide overhead rate based on direct labor hours. Outside cost consultants have recommended, however, that the company use Activity-Based Costing (ABC) to charge overhead to products. The company expects to produce 4,000 computer parts and 2,000 cell phones in FY 2019. Each computer part requires two direct labor hours to produce and each cell phone requires one-half hour to produce. The direct material and direct labor costs included in the two products are as follows :

<i>Item</i>	<i>Computer Part (Rs.)</i>	<i>Cell-Phone (Rs.)</i>
Direct Material (per unit)	30	17
Direct labor (per unit)	16	4

Budgeted (Estimated) Total Factory Overhead Data for FY 2019 :

<i>Activity</i>	<i>Budgeted Overhead (Rs.)</i>	<i>Estimated Volume Level</i>
Production setups	80,000	20 setups
Material Handling	70,000	5,000 lbs
Packaging and Shipping	1,20,000	6,000 boxes
Total Factory Overhead	2,70,000	

Turn over

Based on an analysis of the three overhead activities, it was estimated that the two products would require these activities as follows in 1999 :

<i>Activity</i>	<i>Computer Part</i>	<i>Cell-Phone</i>	<i>Overall Totals</i>
Production Setups	5 setups	15 setups	20 setups
Material handling	1,000 lbs.	4,000 lbs.	5,000 lbs
Packaging and Shipping	4,000 boxes	2,000 boxes	6,000 boxes

Required :

- (i) Find the cost of each product using a plant-wide rate based on direct labor hours ;
- (ii) Find the activity cost rates for setups, material handling, and packaging and shipping ; and
- (iii) Cost out the two products using an activity-based costing system.

(6 weightage)