

Roll No.

Total No. of Pages : 04

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DEP, M.COM./M.Com. (Prof.) (Sem.-2)

STRATEGIC COST MANAGEMENT

Subject Code : MCOP-204

M.Code : 71525

Date of Examination : 12-07-22

Time : 3 Hrs.

Max. Marks : 80

INSTRUCTIONS TO CANDIDATES :

1. SECTIONS-A, B, C & D contains TWO questions each carrying FIFTEEN marks each and students has to attempt any ONE question from each SECTION.
2. SECTION-E is COMPULSORY consisting of TEN questions carrying TWENTY marks in all.
3. Use of non-programmable scientific calculator is allowed.

SECTION-A

1. What is the meaning of value chain management? How it is implemented? Does it is different from traditional cost management? Discuss the value chain model.
2. What do you mean by target costing? Discuss in detail methods of computing target costing and relevance QFD tool and survival zone for target costing and life cycle costing. What are the changes of determining the target price and reducing selling cost faced by the organization in the era of globalization?

SECTION-B

3. ABC manufacturing company has three accounts clerks responsible for processing purchase invoices. Each clerks is paid a salary of Rs. 3,00,000 p.a. and is capable of processing 5000 invoices per year (working efficiently). In addition to the salary, the company spends Rs. 90,000 per year for forms, postage etc. (assuming that 15000 invoices are processed). During the year 12,500 invoices were processed. You are required to calculate :
 - a. Calculate the activity rate for the purchase order activity. Break this activity into fixed and variable components.
 - b. Compute the total activity availability and Break this activity into used activity and unused activity.
 - c. Calculate the total cost of resources supplied and break this into activity into used activity and unused activity.

4. Anupam International LTD produces three products A, B, C each requiring more than one labour operation. Labour requirement per unit of output is given below :

Operation	A	B	C
1	10	20	5
2	5	-	10
3	15	10	5

The factory works for 8 hours per day for 26 days in a month. In a month 8 hours are lost due to various reasons. The budgeted hourly rates for the workers in operations 1, 2 and 3 are Rs. 4, Rs. 5 and Rs. 6 respectively.

The budgeted production during the Month for the three products is as follows :

PRODUCT A	4000 units
PRODUCT B	6000 units
PRODUCT C	8000 units

Prepare a labour budget for the month showing for each operation, (i) direct labour hour (ii) direct labour cost and (iii) the number of workers.

SECTION-C

5. Following a strategy of product differentiation, Westwood Corporation makes a high-end Kitchen range hood, KE8. Here's Westwood's data

	2003	2004
a. Units of KE8 produced and sold	40,000	42,000
b. Setting price	\$100	\$110
c. Direct materials (square feet)	1,20,000	1,23,000
d. Direct materials costs per square foot	\$10	\$11
e. Manufacturing capacity for KE8 UNITS	50,000 units	50,000 units
f. Conversion costs	\$10,00,000	11,00,000
g. Conversion costs per unit of capacity	\$20	\$22
h. Selling and customer service capacity	30 customers	29 customers
i. Selling and customer service costs	\$7,20,000	\$7,25,000
j. Cost per customer of selling and customer Service capacity	\$24,000	\$25,000

Westwood produced no defective units and reduced direct material usage per unit of KE8 in 2003. Conversion costs in each year are tied to Manufacturing capacity. Selling and customer service costs are related to the number of customer that the selling and service functions are designed to support. Westwood has 23 customers in 2002 and 25 customers in 2003.

REQUIRED

- a. Describe briefly the element you would include in Westwood's balance scorecard.
 - b. Calculate the growth, price discovery and productivity components that explains the change in operating income from 2002 to 2003.
 - c. Suppose during 2003, the market for high end kitchen range hoods grew at 3% in terms of number of units that all increases in market share (that increase in the number of units sold greater than 3%) are due to Westwood's product differentiation strategy. Calculate how much change in operating income from 2002 to 2003 due to the industry market size factor, cost leadership, and product differentiation.
 - d. How successful has Westwood been in implementing its strategy? Explain
6. Describe the concept of just in time manufacturing system. *'In the context of just in time purchasing technique, reporting of traditional material price variance may be inappropriate'*. Discuss the statement.

SECTION-D

7. What do you mean by quality and quality costing? How cost of quality can be measured? Discuss in detail technique to identify the problem of quality and control cost of quality. How quality costing helps to manage and control the cost of any organization with the use of theory of constraint.
8. A company has two divisions, A and B. Division, A manufactures a component which is used by division B to produce a finished product. For the next period, output and costs have been budgeted as follows :

	Division A	Division B
Component units	50,000	-
Finished units	-	50,000
	Rs. 2,50,000	Rs. 6,00,000
Fixed costs	Rs. 1,50,000	Rs. 2,00,000

The fixed costs are separable for each division. You are required to advise on the transfer price to be fixed for Division A's component under the following circumstances.

- a. Division A can sell the component in a competitive market for Rs. 10 per unit. Division B can also purchase the component from the open market at that price.
- b. As per the situation described in (i) above, and further assume that Division B currently buys the component from an external supplier at the market price of Rs. 10 and there is reciprocal agreement between the external supplier and another Division C, within the group. Under this agreement the external supplier agrees to buy one product unit from Division C, at the profit Rs. 4 per unit to that division, for every component which division B buys from the supplier.

SECTION-E

9. Write short note on the following in 2-5 lines :

- a) Explain three merits of ERP.
- b) What do you mean by Kaizen costing?
- c) How fixed budget differ from flexible budget?
- d) Define responsibility centre.
- e) Discuss in detail benefits of standard costing.
- f) Define transfer pricing.
- g) How will you calculate cost of quality?
- h) What do you mean by cost hierarchy?
- i) How will you calculate target cost explain with the help of example?
- j) Define strategic cost management.

NOTE : Disclosure of Identity by writing Mobile No. or Marking of passing request on any paper of Answer Sheet will lead to UMC against the Student.