C 32782 (Pages : 4) Name.....

Reg. No.....

THIRD SEMESTER M.B.A. DEGREE EXAMINATION, DECEMBER 2017

(CUCSS)

BUS 3C 18—STRATEGIC COST MANAGEMENT

(2016 Admissions)

Time : Three Hours Maximum : 36 Weightage

Part A

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

1. 'Management Accounting is simply another name of Cost Accounting'. Critically comment.
2. Enumerate the assumptions of Break-Even Analysis.
3. Distinguish between Marginal Costing and Absorption Costing.
4. Define the concept of Activity Based Costing (ABC). What is a Cost Driver ?
5. Briefly explain the concept of Value Analysis.
6. What is Kaizen Costing ? What is its relevance in a competitive business scenario ?

(6 × 1 = 6 weightage)

Part B

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

7. What is Target Costing ? Discuss its special significance in the current globalised regime.
8. What do you mean by Non-Linear Break-Even Chart ? In this context, discuss the concepts of Lower BEP, Upper BEP, and Maximum Profit with the help of a suitable diagram.
9. ABC Ltd. manufactures and sells four types of products under four brands A, B, C and D. The sales mix comprises 25%, 40%, 30% and 5% of products A, B, C and D respectively. The total budgeted sales (100% are Rs. 60,000 p.m.). Operating Costs are : Variable Costs : Product A 60% of selling Price Product B 68% of selling Price Product C 80% of selling Price Product D 40% of selling Price Fixed Costs : Rs. 14,700 p.m. Calculate the break-even-point for the products on overall basis.

Turn over

10. XYZ Ltd. commenced business on 1st April 2017 making one product only. Its cost card shows:

Particulars	*Amount (Rs.)*
Direct labour	5
Direct material	8
Variable Production overhead	2
Fixed Production overhead	5
Standard production cost	20

The fixed production overhead figure has been calculated on the basis of a budgeted normal output of 36,000 units per annum. The fixed production overhead incurred in April was Rs. 15,000 each month. Selling, distribution and administration expenses are as follows :

Fixed : Rs. 10,000 per month

Variable : 15% of the Sales value

The selling price per unit is Rs. 35. The number of units produced and sold were as follows :

	April 2017 (units)
Production ...	2,000
Sales ...	1,500

Prepare income statements (April 2017) under Absorption Costing and Marginal Costing.

11. XYZ Ltd. produces three products (X, Y and Z) in a joint process costing Rs. 100,000. The products can be sold as they leave the process, or they can be processed further and sold. The cost accountant has provided you with the following information :

Product	Unit Volume	Sales Price at Split-Off (Rs.)	Separable Further Processing Costs (Rs.)	Sales Price After Further Processing (Rs.)
X	3,000	10	60,000	25
Y	4,000	15	50,000	30
Z	8,000	20	90,000	35

Assume that all processing costs are variable costs. Required: Which products should XYZ sell at split-off, and which products should be processed further ?

12. Explain the features of Enterprise Resource Planning (ERP). What are the benefits of ERP ?

(4 × 3 = 12 weightage)

Part C

Answer any **three** *questions.*
Each question carries 4 *weightage.*

13. Compare and contrast Cost Reduction and Cost Control. In this context, compare Kaizen Costing and Standard Costing with regard to their basic philosophies.

14. "JIT is an imperative for higher operational efficiency of manufacturing companies today. In the Indian scenario too, at least an 'Indianised JIT' must be put in place now, so that the same could be upgraded to a foil fledged JIT in due course". Comment on the statement. Substantiate your views.

15. ABC Ltd. manufactures and sells 7,500 units of a product. The full cost per unit is Rs. 100. The Company has fixed its price so as to earn a 20% return on an Investment of Rs. 9,00,000. Required :

    (i) Calculate the Selling Price per unit and also the mark-up % on the Full Cost per unit.

    (ii) If the Selling Price as calculated above represents a mark-up % of 40% on Variable Cost per unit. Calculate the Variable Cost per unit.

    (iii) Calculate the Company's Income if it had increased the Selling Price to Rs. 115. At this price, the Company would have sold 6,750 units. Should the company have increased the Selling price to Rs. 230 ?

    (iv) In response to competitive pressures, the company must reduce the price to Rs. 105 next year, in order to achieve sales of 7,500 units. The company also plans to reduce its investment to Rs. 8,25,000. If a 20% return on Investment should be maintained, what is the Target Cost per unit for the next year ?

16. Excel 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 financial year (FY) 2019 : (i) Sales planned for FY 2009 will be Rs. 7.20 lakhs in the case of Splash and Rs. 3.50 lakhs in the case of Flash, (ii) Break-even is planned at 60% of the total sales of each product, (iii) 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, (a) Number of units to be sold of Splash and Flash to break-even as well as the total number of units of Splash and Flash to be sold during FY 2019. (b) Reduction in fixed expenses product-wise that is envisaged by the cost Reduction Program for FY 2019.

17. Discuss the need, importance and relevance of activity-based costing.

(3 × 4 = 12 weightage)

Turn over

Part D

Answer the following **compulsory** *question which carries 6 weightage.*

18. M/s. Excel Ltd. has two plants viz. Plant A and Plant B. The following are the operating details of these two plants under the company :

Particulars	*Plant A (Rs.)*	*Plant B (Rs.)*
Sales	10,00,000	8,00,000
Variable Cost	6,00,000	5,00,000
Fixed Cost	2,00,000	2,00,000
Capacity utilization	100%	50%

It is required to merge both the plants. You are required to ascertain the following :

(a) Break-even sales and break-even capacity of the merged plant.

(b) Profit and profitability of operating the merged plant at 90% of the capacity.

(c) Capacity level of operation, if profit of Rs. 4,00,000 (the profit made by both the plants before merger) has to be made by the merged plant.

(1 × 6 = 6 weightage)