D 51902 (Pages : 4) Name.................................

Reg. No.................................

THIRD SEMESTER M.B.A. DEGREE EXAMINATION, DECEMBER 2018

(CUCSS)

M.B.A.

Finance

BUS 3C 18—STRATEGIC COST MANAGEMENT

(2016 Admissions)

Time : Three Hours Maximum : 36 Weightage

Part A

Answer the following.
Each question carries 1 *weightage.*

1. Differentiate between Cost Control and Cost Management.
2. State the need for Strategic Cost Management.
3. Why marginal costing is preferred than actual costing in estimations ?
4. Enlist few techniques of cost control.
5. Describe Kaizen costing.
6. Define Margin of Safety.

(6 × 1 = 6 weightage)

Part B

Answer any **four** *of the following.*
Each question carries 3 *weightage.*

7. Discuss cost management with reference to management of value chain.
8. 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.
9. Briefly explain how JIT eliminates the wastage of resources.
10. Anuradha enterprises manufacturers and sells black phenyl worth Rs. 20,000, white phenyl worth Rs. 25,000, scanted phenyl worth Rs. 10,000 and naphthalene balls worth Rs. 5,000 every month. The firm's tool fixed costs per month are Rs. 14,700. The variable costs are : on block phenyl 60 % on white phenyl 68% on scented phenyl 80 % and on naphthalene balls 40 %.

    The proprietrix Ms. Anuradha Shah, being basically a science graduate, wonders at what combined sales volume dues she really start earning profit. Please her in arriving at such a sales volume.

Turn over

11. Discuss the key characteristics of successful target costing.

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

    (a) Calculate the Selling Price per unit from the above. Also, calculate the mark-up % on the Full Cost per unit.

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

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

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

(4 × 3 = 12 weightage)

Part C

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

13. What do you mean by cost drivers ? Identify various cost drivers in service industry.

14. What is Marginal Cost Pricing ? What are the arguments in favor and against marginal cost pricing ?

15. Precision Auto Comp Ltd. Manufactures and sells two automobile components A and B. Both are identical with slight variation in design. Although the market for both the products is the same, the market share of the company for product A is very high and that of product B very low. The company's accountant has prepared the following profitability statement for the two products Cost of production : (same for both the products) :

    Direct Material Rs. 125

    Direct Labor Rs. 24

    Direct Expenses (sub-contract charges) Rs. 36

    Overheads (400 % of direct labor) Rs. 96

    Total Cost Rs. 281

	Product A	Product B	Total
Quantity sold ...	1,24,000	23,150	1,47,150
Unit sale price ...	300	290	
Total sales realisation ...			4,39,13,500
Cost of sales as above ...			4,13,49,150
Margin ...			25,64,350

The company's marketing manager, after attending a workshop on activity-based costing challenges the accountant's figures. The nearest competitor's prices for the two products are Rs. 330 and Rs. 275 per unit respectively and, if the company can match the competitor's prices, it can sell 75,000 nos. each of the two products. The Production Manager confirms that he can produce this product mix with the existing facilities. The management engages you as consultant, and the following facts have been identified by you :

(a) Product A undergoes 5 operations and product B undergoes two operations by subcontractors, although the total subcontract charges are the same for both the products, and

(b) 75 % of the overheads is accounted for by three major heads relating to subcontracting operations, viz., ordering, inspection and movement of components, to and from the sub-contractor's works.

Prepare a revised profitability statement to find out if the marketing manager's proposal is viable.

16. ABC Ltd. manufactures only one product which are identical in every respect .

The following information relates to April and May 2018 :

	April	May
(a) Budgeted costs and selling prices :	Rs.	Rs.
Variable manufacturing cost per unit ...	2.00	2.20
Total fixed manufacturing cost (based on budgeted sales of 25,000 units per month) ...	40,000	44,000
Total fixed marketing cost (based on budgeted sales of 25,000 units per month) ...	14,000	15,400
Selling price per unit ...	5.00	5.50
(b) Actual production and sales achieved :	Units	Units
Production ...	24,000	24,000
Sales ..	21,000	26,500

(c) There was no stock of finished goods at the beginning of April 1986. There was no wastage or loss of finished goods during either April or May 1986.

(d) Actual costs incurred corresponded to those budgeted for each month.

Calculate the relative effects on the monthly operating profits of applying the following methods : (i) Absorption costing ; and (ii) Marginal costing.

17. Briefly explain the steps in Strategic Cost Management Programme.

(3 × 4 = 12 weightage)

Part D

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

18. S. Chand and Co., a leading publisher, publish two variance of a text book. One is paper back and the other is hard bound. Management is considering publishing only the higher quality book. The firm assigns its Rs. 5,00,000 of overhead to the two types of books. The overhead is composed of Rs. 2,00,000 of utility and Rs. 3,00,000 of quality control inspector's salaries.

Some additional data follow :	*Paper back*	*Hard bound*
Revenues ...	Rs. 16,00,000	Rs. 14,00,000
Direct cost ...	Rs. 12,50,000	Rs. 6,00,000
Production (units) ...	5,00,000	3,50,000
Machine hours ...	42,500	7,500
Inspections ...	2,500	12,500

(i) Compute the overhead cost that should be allocated to each type of text book using cost drivers appropriate for each type of overhead cost.

(ii) The firm has used machine hours to allocate overhead in the post. Should the publisher stop producing the paper back books ? Explain why management was considering this action and what its decision should be.

(1 × 6 = 6 weightage)