CMR
INSTITUTE OF
TECHNOLOGY

USN | | | | | | | | | |

Internal Assesment Test - I

Sub:	Strategic Cost Management								Code:
Date:	**04.03.2024**	Duration:	**90 mts.**	Max Marks:	**50**	Sem:	**III**		Branch:
SET- I									

Ma

Part A - Answer Any Two Full Questions (2* 20 = 40 marks)

1 (a) Why does profit differ under marginal and absorption costing? [

The difference between the profit figures calculated under absorption and marginal costing principles is caused by the treatment of fixed production overheads. In marginal costing the full amount of fixed production overheads is written off in the period that it occurs.

(b) Explain Normal Loss, Abnormal Loss and Abnormal Gain. [

All those losses which are not normal will be the abnormal loss. For treating the abnormal loss in the process account, we need to calculate the value of abnormal loss. Abnormal loss = {Normal cost at normal production / (Total output – normal loss units)} X Units of abnormal loss. Abnormal Gain: If the actual production units are more than the anticipated units after deducting the normal loss, the difference between the two is known as abnormal gain.

(c) Following information is given: [

Sales Rs.2,00,000, Variable cost Rs.1,20,000, Fixed cost Rs.30,000

Calculate : (a) Break even point

(b) new break even point if selling price is reduced by 10%

(c) new break even point if variable cost is increased by 10%

(d) new break even point if fixed cost increases by 10%

Solution: (i) PV Ratio= 200000-120000/200000 = 40%

(a) New PV Ratio = 180000-120000/180000 = 1/3,

New BEP = FC/PV Ratio = 30000/1/3 = 90,000

(b) New PV Ratio = 200000-132000/200000 = 34%

New BEP = 30000/34% = 88235

(c) New FC = 33000, New BEP = 33000/40% = Rs.82,500

2 (a) Recall margin of safety. [

Margin of safety measures the difference between real and break-even sales. Break-even point measures the volume of sales where all costs are covered.

(b) From the following particulars, prepare Process X account showing the cost per tonne of output: [(

Materials in tonnes	1000
Manufacturing expenses	10000
Cost of material per tonne	125
Wages	26000
Output in tonnes	830

It is ascertained that in the process, normally 5% of the total weight is lost and 10% is scrap which realizes Rs.80 per tonne. There was no stock or work in process.

Dr Process A/c Cr

Material	1000	125	125000	Loss 5%	50	-	-
Wages			26000	Normal loss	100	80	8000
Mfg. expenses			10000	Abnormal loss	20	180	3600
				Output transferred to next process	830	180	149400
		1000	161000			1000	161000

[1

(c) The following details are forecasted by a company for the purpose of effective cash utilization and management:

Estimated sales and cost in Rs.

Year and month 2021	Sales	Material	Wages	Overhead
April	4,20,000	2,00,000	1,60,000	45,000
May	4,50,000	2,10,000	1,60,000	40,000
June	5,00,000	2,60,000	1,65,000	38,000
July	4,90,000	2,82,000	1,65,000	38,000
Aug	5,40,000	2,80,000	1,65,000	60,800
Sep	6,10,000	3,10,000	1,70,000	52,000

(ii) credit items:

- Sales 20% of sales on cash basis, 50% of the credit sales are collected net month and balance in the following month
- Credit allowed by suppliers is 2 months
- Delay in payment of wages is ½ month and of overhead is 1 month

(iii) interest on 12% debentures of Rs.5,00,000 is paid half yearly in June and December.

(iv) dividend on investments amounting to Rs.25,000 is expected to be received in June 2021

(v) a new machinery will be installed in June 2021 at a cost of Rs.4,00,000 which is payable in 20 instalments from July 2021 onwards

(vi) advance income tax to be paid in August 2021 Rs.15,000

(vii) cash balance on 1st June 2021 is expected to be Rs.45,000 and the company wants to keep it at the end of every month around this figure. The excess cash is being put in a fixed deposit.

Prepare a monthly cash budget for four months starting from June 2021.

Cash Budget

	June	July	Aug	Sep
O/Bal	45000	45500	45500	45000
Receipts				
Cash sales (WN 2)	100000	98000	108000	122000
Collection from debtors (WN 2)	348000	380000	396000	412000
Dividend	25000	—	—	—
Total (A)	518000	523500	549500	579000
Payments				
Creditors	200000	210000	260000	282000
Wages (WN 1)	162500	165000	165000	167500
Overhead	40000	38000	37500	60800
Installments for machine	—	20000	20000	20000
Int. on debentures	30000	—	—	—
Advance tax	—	—	15000	—
Total (B)	432500	433000	497500	530300
Surplus (A − B)	85500	90500	52000	48700
F.D.	40000	45000	7000	3000
Closing balance	45500	45500	45000	45700

WN 1
Wages June 80000 + 82500 = 162500 etc.

WN 2:

	Total sales	cash	credit	June	July	Aug	Sep
April	420000	~~~~ 84000	336000	168000	—	—	—
May	450000	90000	360000	180000	180000	—	—
June	500000	100000	400000	—	200000	200000	—
July	490000	98000	392000	—	—	196000	196000
Aug	540000	108000	432000	—	—	—	216000
Sep	610000	122000	488000	—	—	—	—
				348000	380000	396000	412000

(collections: June–Sep)

3 (a) Illustrate cost audit and management audit. [0

A cost audit is a thorough check and examination of the cost statements, data, records, and systems to make sure they are correct. Management Audit means that the whole company is looked at to evaluate its policies, plans, and management structure to see how well they work.

(b) Discuss the types of responsibility centres. [0

- **Cost Centre-** A Cost Centre is a department or a unit which supervises, allocates, segregates, and eliminates all sorts of the cost related to a company. The cost center prime work is to check the cost of an organization and to limit the unwanted expenditure the company may acquire. The cost can be the determination of both person and location. In multinational companies, the cost center is authorized to decrease and manage the cost.
- **Revenue Centre-** This center is accountable for initiating and monitoring revenue. The management does not have any control over the cost or investment but can monitor a few of the expenses in the marketing section. The production of the revenue center is calculated by analyzing the budgeted revenue with actual revenue and actual marketing expenses with budgeted marketing expenses.
- **Profit Centre-**It is a division or department of a company which operates for the calculation of profit. In an organization, different profit centers are managed by the managers, who identifies profits on the basis of costs and incomes. Profit Centre is accountable for all the actions associated with the sales of goods and production.
- **Investment Centre-** This center is responsible for both investments and revenue. The investment manager can control expenses, income, the fund invested in assets, etc. He also has the authority to form a credit policy, which has an immediate impact on debt collection.

(c) The standard material input required for 1000 kgs. Of a finished product are given below: [1

Material	Quantity	Standard rate per kgs.
P	450	20
Q	400	40
R	250	60
	1100	
Standard Loss	100	
Standard output	1000	

Actual production in a period was 20,000 kgs. Of finished product for which the actual quantities of material used and the prices paid thereof were as under:

Material	Quantity	Purchase rate per kgs.
P	10000	19
Q	8,500	42
R	4,500	65

Calculate: (i) MCV (ii) MPV (iii) MUV (iv) MMV (v) MYV.

(i) MCV : SC for actual output – actual cost = 800000-839500 = 39,500 (A)
(ii) MPV: P = 10000(F), Q = 17000 (A), R = 22500 (A) = 29,500 (A)
(iii) MUV: P = 20000(A), Q = 20000 (A), R = 30000 (F) = 10,000 (F)
(iv) MMV: P = 11818(A), Q = 5455 (A), R = 43,636 (F) = 26,363 (F)
(v) MYV: (AY-SY)SR = 36,363 (A)
(vi) Verification: MCV = MPV+MUV = 39,500(A) = 29,500(A)+10,000 (A))
(vii) MCV = MPV+MMV+MUV = 39,500 (A) = 29,500(A) + 26,363(F) + 36,363(A)

4

Particulars	Product A	Product B
Direct materials	24	14

Direct labor @Rs.3 per hour	6	9
Variable overhead @Rs.4 per hour	8	12
Selling price	100	110
Standard time	2 hours	3 hours.

As a management accountant, give your suggestion to management as to which product you would recommend to manufacture when

(a) Labour time is the key factor

(b) Sales value is the key factor

Particulars	Product A	Product B
SP	100	110
Less: D/M	24	14
D/L	6	9
Variable overheads	8	12
Variable cost	38	35
S-V	62	75

(a) Contribution per labour hour = 62/2 hrs. = 31 75/3 = 25

(b) Contribution per rupee of sales value = 62/100 = 0.62p 75/110 = 0.68p

Conclusion:

Product A is recommended when labour time is key factor

Product B is recommended when sales value is the key factor

B is more profitable when sales quantity is key factor

Course Outcomes		PO1	PO2	PO3	PO4	PO5	PSO1	PSO2	PSO3	PSO4
CO1	Understand the goals and strategies of business units.									
CO2	Determine standard costing and variance analysis cost control in Business decision making,			3(c)				3(c)		
CO3	Applications of Management accounting and control systems in Corporate.				1(b)				2(c)*	
CO4	Critically evaluate all traditional and non-traditional costing methods suchas absorption costing; marginal costing and activity-based costing.		1(a) 1(c)		2(a) 2(b) 3(a) 3(b)*					4(a) 4(b)*

Cognitive level	KEYWORDS
L1 - Remember	list, define, tell, describe, recite, recall, identify, show, label, tabulate, quote, name, who, when, where, etc.
L2 - Understand	describe, explain, paraphrase, restate, associate, contrast, summarize, differentiate interpret, discuss
L3 - Apply	calculate, predict, apply, solve, illustrate, use, demonstrate, determine, model, experiment, show, examine, modify
L4 - Analyze	classify, outline, break down, categorize, analyze, diagram, illustrate, infer, select
L5 - Evaluate	asses, decide, choose, rank, grade, test, measure, defend, recommend, convince, select, judge, support, conclude, argue, justify, compare, summarize, evaluate

L6 - Create	design, formulate, build, invent, create, compose, generate, derive, modify, develop, integrate

PO1–*Theoretical Knowledge;* **PO2–***Foster Analytical and Critical Thinking Abilities for data based decision making;*
PO3– *Develop Value Based Leadership;* **PO4 –***Ability to Understand and communicate various business aspects to global;*
PO5 – *Ability to lead themselves and others in the achievement of organizational goals contributing effectively to a team environment;*
PSO1- *Comprehend Contemporary features of Business Management Science and its administration*
PSO2- *Analyze and interpret the dynamic situations for making Business Management strategies*
PSO3- *Handle responsibility with the ethical values for all actions undertaken by them*
PSO4- *Adapt and focus on achieving the organizational goal and objectives with complete zeal and commitment.*

CI **CCI** **HOD**