

Internal Assessment Test - I

Sub:	Strategic Cost Management							Code:	22MBAFM303
Date:	05.03.2025	Duration:	90 mts.	Max Marks:	50	Sem:	III	Branch:	MBA

SET- I

		OBE	
		CO	RBT
Part A - Answer Any Two Full Questions (2* 20 = 40 marks)			
1 (a) Restate elements of cost.	[03]	CO1	L2
<p>Material: The substance from which the product is made is known as material. It can be direct as well as indirect.</p> <p>Direct material:</p> <p>Indirect material:</p> <p>Labour: Labour cost can be classified into direct labour and indirect labour. Direct labour:</p> <p>Expenses: Expenses may be direct or indirect.</p> <p>Direct expenses: These expenses are incurred on a specific cost unit and identifiable with the cost unit.</p>			
(b) Describe the methods of allocating and apportioning overheads.	[07]	CO4	L2
<p>re-distribution of service department costs to production departments: (i) Direct distribution method: Under this method, the cost of service department are directly apportioned to production departments, without taking into consideration any service from one service departments to another service department. (ii) Step method: In this method the cost of most serviceable department is first, apportioned to other service departments and production departments. The next service department is taken up and its cost is apportioned and this process is going on till the cost of last service department is apportioned. The cost of last service department is apportioned among production departments only. (iii) Reciprocal service method: This method gives cognizance to the fact that where there are two or more service departments, they may render service to each other and therefore these inter departmental services are to be given due weight in distributing the expenses of service departments. There are three methods available for dealing with inter service department transfer : (a) Simultaneous equation method: Under this method, the true cost of service departments are ascertained first with the help of simultaneous equations. These are then distributed among the production departments on the basis of given percentages. (b) Repeated distribution method: According to this method service department</p>			

costs are apportioned over other departments, production as well as service according to the agreed percentages and this process is repeated until the total costs of the service departments are exhausted or the figures become too small to be considered for further apportionment. (c) Trial and error method: In this method the cost of one service department is apportioned to another service department. The cost of another service department plus the share received from the first service department is again apportioned to first service department and this process is continued until the balancing figure becomes nil

(c) A factory produces 24,000 units. The cost sheet gives the following information [10]

Direct Material Rs.1,20,000

Direct wages Rs.84,000

Direct wages Rs.48,000

Variable overheads Rs.28,000

Semi variable overheads Rs.28,000

Fixed overheads Rs.80,000

Total Cost Rs.3,60,000

The product is sold at Rs.20 per unit.

The management proposes to increase the production by 3000 units for sales in the foreign market. It is estimated that the semi-variable overheads will increase by Rs.1000. But the product will be sold at Rs.14 per unit in the foreign market, However no additional capital expenditure will be incurred. The management seeks your advice as a cost accountant. Recommend your advice to them.

CO4	L5

Statement of Marginal cost and contribution			
Total Units....	24000	Amt PU	Amt Rs.
Sales		20.00	480000
Less - Variable costs			
Direct materials		5.00	120000
Direct wages		3.50	84000
Variable overheads		2.00	48000
Contribution		9.50	228000
In case the production of additional 3000 units is undertaken for sale in the foreign market at Rs.14 per unit, the position will be as under.			
Total Units....	3000	Amt PU	Amt Rs.
Sales		14.00	42000
Less - Variable costs			
Direct materials		0.63	15000
Direct wages		0.44	10500
Variable overheads		0.25	6000
Additional Contribution		12.69	10500
Less-Semi variable o/h increase			1000
Net addition to profit			9500
The proposal for increase of production by 3000 units for sale in the foreign market may be accepted since it will result in an additional profit of Rs.9500/-			

2 (a) Recall cost unit, cost centre.

A cost centre means, “a production or service location, function, activity or item of equipment whose costs may be attributed to cost units”. Cost centre is the smallest organisational sub-unit for which separate cost collection is attempted.

A unit of cost as “a unit of product or service in relation to which costs are ascertained”. A cost unit is a devise for the purpose of breaking up or separating costs into smaller sub-divisions.

(b) Explain ABC method, how it differs from traditional costing and its advantages.

Activities comprise of units of work or tasks. For example, purchase of materials is an activity consisting a series of tasks like purchase requisition, advertisement inviting quotations, identification of suppliers, placement of purchase order, follow-up etc.

Types of Activities: Activities basically fall into four different categories, known as the manufacturing cost hierarchy. Due to the increasing accuracy of output costs, ABC information enables managers to make better decisions on product, product design, process improvement, market segments and customer mix. . It can lead product designers to decisions on tradeoffs between minimizing cost and desired performance and it provides the cost information of diverse designs that product designers can compare moreover, using product costing techniques at the design stage can be combined with target costing since product costs can determine the mix of products to manufacture and to sell and can evaluate profitability by product group or customer type.

[03]

[07]

CO1	L2
CO4	L2

<p>To furnish many significant benefits over traditional costing techniques</p> <p>(a) most accurate data about product cost;</p> <p>(b) more comprehensive cost information for performance measurement;</p> <p>(c) relevant data for management's decision-making;</p> <p>(d) more potential for sensitivity analysis;</p> <p>(e) providing a model prospect on value-adding organizational transactions and activities</p>			
<p>(c) The accounts of Tool King Company Ltd. show for 20X6: (in Rs.)</p> <p>Materials Rs 3,50,000</p> <p>Labour Rs 2,70,000</p> <p>Factory Overheads Rs 81,000</p> <p>Administration Overheads Rs 56,080.</p> <p>It is estimated that Rs 1,000 in material and Rs 700 in labour will be required for one refrigerator. Absorb factory overheads on the basis of labour and administration overheads on the basis of works cost. A profit of 12½ % on selling price is required. Recommend the price the company should quote for a refrigerator?</p>	[10]	CO4	L5

Statement of Cost

Particulars	Rs.
Materials	350,000
Labour	270,000
Prime Cost	620,000
Factory Overheads	81,000
Works Cost	701,000
Administration Overheads	56,080
Total Cost of Production	757,080
Percentage of Factory Overheads to Labour: $=(81,000/270,000)*100 = 30\%$	
Percentage of Administration Overheads to Works Cost: $=(56,080/701,000)*100 = 8\%$	

Statement of Selling Price of a Refrigerator

Particulars	Rs.
Materials	1,000
Labour	700
Prime Cost	1,700
Factory Overheads (30% on Labour)	210
Works Cost	1,910
Administration Overheads (8% of Works Cost)	152.80
Total Cost of Production	2062.80
Add Profit (1/8 on Sales or 1/7 of Cost)	294.69
Selling Price per Refrigerator	2,357.49

3 (a) Enumerate fixed cost and variable cost.

A fixed cost is one that is independent of the level of sales; rather, it is related to the passage of time. Examples of fixed costs include rent, salaries and insurance. A variable cost is one that is directly related to the level of sales, such as cost of goods sold and commissions.

[03]

CO1

L2

(b) Explain the role of a cost accountant in managerial decision-making.

Cost accounting aims at systematic recording of expenses and analysis of the same so as to ascertain the cost of each product manufactured or service rendered by an organisation. Information regarding cost of each product or service would enable the management to know where to economise on costs, how to fix prices, how to maximise profits and so on. Thus, the main role of a cost accountant are the following:

[07]

CO1

L2

- (1) To analyse and classify all expenditures with reference to the cost of products and operations.
- (2) To arrive at the cost of production of every unit, job, operation, process, department or service and to develop cost standard.
- (3) To indicate to the management any inefficiencies and the extent of various forms of waste, whether of materials, time, expenses or in the use of machinery, equipment and tools. Analysis of the causes of unsatisfactory results may indicate remedial measures.
- (4) To provide data for periodical profit and loss accounts and balance sheets at such intervals, e.g., weekly, monthly or quarterly, as may be desired by the management during the financial year, not only for the whole business but also by departments or individual products. Also, to explain in detail the exact reasons for profit or loss revealed in total, in the profit and loss account.
- (5) To reveal sources of economies in production having regard to methods, types of equipment, design, output and layout. Daily, weekly, monthly or quarterly information may be necessary to ensure prompt and constructive action.
- (6) To provide actual figures of cost for comparison with estimates and to serve as a guide for future estimates or quotations and to assist the management in their price-fixing policy.

- (c) From the following information, summarise the departmental overhead distribution summary under the method of apportionment to production departments only.

[10]

CO4

L5

Item	Production Dept.			Service Dept.	
	A1	A2	A3	S1	S2
Direct wages (Rs.)	60,000	90,000	1,20,000	30,000	60,000
Direct Material (Rs.)	30,000	60,000	60,000	44,000	45,000
Staff Number	3,000	4,500	4,500	1,600	1,400
Electricity KWh	12,000	9,000	6,000	3,000	3,000
Asset Value (Rs.)	1,20,000	80,000	60,000	20,000	20,000
Light points	20	32	8	12	8
Area (Sq. Yards)	300	500	100	100	100

The overheads for the period were : **(in Rs.)**

Power 2,200 Depreciation 60,000 Lighting 400 Repairs 12,000 Stores 1,600

General Overheads 24,000 Welfare to staff 6,000 Rent & taxes 1,100.

Apportion the overheads of service department Y according to direct wages and those of service department X in the ratio of 5:3:2 the production departments.

Departmental Overhead Distribution Summary

Expenses	Basis	Total	Production Deptts			S I
			A1	A2	A3	
Power	Kwh	2200	800	600	400	
Lighting	Light Points	400	100	160	40	
Stores Overhead	Direct Material	1600	200	402	402	
Welfare to the staff	Staff Number	6000	1200	1800	1800	

Depreciation	Asset Value	60000	24000	16000	12000	4000	4000		
Repairs	Asset Value	12000	4800	3200	2400	800	800		
General Overhead	Direct Wages	24000	4000	6000	8000	2000	4000		
Rent & Taxes	Area	1100	300	500	100	100	100		
Wages	Allocated	90000 --	--	--		30000	60000		
Material	--	89000 --	--	--		44000	45000		
Total as primary									
distribution		286300	35400	28662	25142	82095	115001		
Department									
S2 Wages			25556	38334	51111 --		-115001		
Department									
S1 5:3:2			41048	24628	16419	-82095			
Total as per									
secondary			101990	81626	92684				
distribution									
Part B - Compulsory (01*10=10 marks) – CASE STUDY									
4	A factory uses job costing. The following data are obtained from its books for the year ended 31st December, 2013.								
	Direct materials 90,000	Selling and dist. overheads 52,500							
	Direct wages 75,000	Administration overheads 42,000							
	Factory overheads 45,000	Profit 60,900							
	(a) Summarise a Cost Sheet indicating the Prime cost, Works cost, Production cost, Cost of sales and the Sales value.						CO4	L5	
	(b) In 2014, the factory received an order for a number of jobs. It is estimated that direct materials required will be Rs. 1,20,000 and direct labour will cost Rs.75,000. Recommend the price for these jobs if factory intends to earn the same rate of profit on sales assuming that the selling and distribution overheads have gone up by 15% ? The factory recovers factory overheads as a percentage of direct wages and administration, selling and distribution overheads as a percentage of works cost, based on cost rates prevailing in the previous year.						CO4	L5	
	Cost Sheet for the year ended 31 st Dec 2013 (in Rs.)								
	Direct Material	90,000							
	Direct Wages	75,000							
	Prime Cost	1,65,000							
	Factory Overheads	45,000							
	Works Cost	2,10,000							
	Administration Overheads	42,000							
	Cost of Production	2,52,000							

Selling & Distribution Overheads	52,500
Cost of Sales	3,04,500
Profit	60,900
Sales Value	3,65,400

Calculation of Rates:

1. Percentage of factory overheads to direct wages $45,000/75,000 \times 100 = 60\%$
2. Percentage of administration overheads to works cost $42,000/2,10,000 \times 100 = 20\%$
3. Selling and distribution overheads 52,000
Add : 15% increase 7,875
Total 60,375
Selling and dist. overhead % to works cost $60,375/2,10,000 = 28.75\%$
4. % of profit to sales $60,900/3,65,400 \times 100 = 16.67\%$

Job Cost Sheet

Direct Materials	1,20,000
Direct Wages	75,000
Prime Cost	1,95,000
Factory Overhead 60% of DW	45,000
Works Cost	2,40,000
Administration Overhead 20% of WC	48,000
Cost of Production	2,88,000
Selling and distribution overheads (28.75% of works cost)	69,000
Total Cost	3,57,000
Profit (1/ 5 of total cost)	71,400
Selling Price	4,28,400

Course Outcomes		PO 1	PO 2	PO 3	PO 4	PO 5	PS O1	PS O 2	PSO 3	PSO 4
CO1	Understand the goals and strategies of business units.	1a 2a 3a 3b						1a,b,c 2a,b,c 3a,b,c 4a,b,		
CO2	Determine standard costing and variance analysis cost control in Business decision making,									
CO3	Applications of Management accounting and control systems in Corporate.									
CO4	Critically evaluate all traditional and non-traditional costing methods such as absorption costing; marginal costing and activity-based costing.		1b 1c 2b 2c 3c 4a 4b							

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.

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