

Internal Assessment Test - II

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|----------|---------------------------|-----------|---------|------------|----|------|-------|------------|-----|
| Sub: | Strategic Cost Management | | | | | | Code: | 22MBAFM303 | |
| Date: | 12/04/25 | Duration: | 90 mts. | Max Marks: | 50 | Sem: | III | Branch: | MBA |
| SET- III | | | | | | | | | |

SET- III

SCHEME OF VALUTION

Marks

OBE

CO

RBT

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

- 1 (a) Prepare a production budget for three months ending 31-3-2024 for a factory producing five products on the basis of the following information:

[03]

CO2

L2

| Type of product | Opening Stock (units) | Budgeted Sales (units) | Desired Closing Stock (units) |
|-----------------|-----------------------|------------------------|-------------------------------|
| A | 5,000 | 20,000 | 4,000 |
| B | 6,000 | 25,000 | 6,000 |
| C | 10,000 | 50,000 | 11,000 |
| D | 1,000 | 10,000 | 1,000 |
| E | 2,000 | 5,000 | 5,000 |

Answer:

**Production (in units): A-19,000; B-25,000; C-51000; D-10,000; E-8,000;
Total-1,13,000**

- (b) The following budgeted production and costs are available for 50% and 75% capacity levels of a factory.

[07]

CO2

L5

| Capacity | 50% | 75% |
|-----------------------------|---------------|---------------|
| Budgeted Production (Units) | 2,000 | 3,000 |
| | ₹ | ₹ |
| Direct Materials | 10,000 | 15,000 |
| Direct Wages | 8,000 | 12,000 |
| Insurance | 4,000 | 4,000 |
| Depreciation | 2,000 | 2,000 |
| Indirect Materials | 4,000 | 5,000 |
| Fuel | 6,000 | 8,000 |
| Maintenance | 2,000 | 2,200 |
| Total | 36,000 | 48,200 |

You are required to:

- Indicate which of the items are fixed, variable and semi-variable.
- Prepare a budget for 90% capacity.
- Show the total cost and cost per unit at 50%, 75% and 90% capacity levels.

Answer:

| 50% | | 75% | | 90% | |
|-----------------|---------------|-----------------|---------------|-----------------|---------------|
| Per Unit (₹) | Amount (₹) | Per Unit (₹) | Amount (₹) | Per Unit (₹) | Amount (₹) |
| 18.00 | 36,000 | 16.067 | 48,200 | 15.42 | 55,520 |

(c) From the following data, calculate all materials variances.

[10] CO2 L5

| M aterials | Standard Mix | Actual Mix |
|---------------|--------------------------|--------------------------|
| X | 200 units @ ₹12 per unit | 160 units @ ₹13 per unit |
| Y | 100 units @ ₹10 per unit | 140 units @ ₹10 per unit |

Standard loss allowed is 10% of input. Actual output is 275 units.

Answer:

| DMCA | | DMQV | |
|---------|---------|---------|--------|
| 17 (A) | | 143 (F) | |
| DMPV | DMQV | DMMV | DMYV |
| 160 (A) | 143 (F) | 80 (F) | 63 (F) |

[03] CO3 L1

2 (a) What is executive summary in cost audit report? Describe key steps involved in preparing executive summary of cost audit report.

Answer:

Executive summary provides a brief overview of the audit process, including key findings and recommendations.

- Scope of the Audit: A brief description of the audit's scope, including which areas of cost management were examined.
- Summary of Key Findings: Highlight the major findings, such as significant cost
- discrepancies, inefficiencies, or potential savings.
- Recommendations: An overview of the recommendations provided to improve cost control and efficiency.

(b) What do you understand by a formal statement from an auditor regarding the findings of the auditor's report. Formulate four types of auditor's opinions with a suitable example on cost audit report.

[07] CO3 L3

Answer:

- Unqualified Opinion: No major issues were found in the costing system, and
- everything appears to be in order.
- Qualified Opinion: There were minor issues that should be addressed but are not
- significant enough to impact the overall financial statements.
- Adverse Opinion: The auditor has found serious issues that require immediate
- attention and correction.
- Disclaimer of Opinion: The auditor could not form an opinion on the cost

| | | | | |
|--|---|------|-----|----|
| | records due to limitations or significant discrepancies in the data. | | | |
| (c) | What is segment reporting? Assess various types of segment reporting and their mandatory requirements in IFRS. Answer: Segment Reporting involves breaking down a company's financial data into smaller, distinguishable units (segments) to provide a more detailed picture of its performance. <ul style="list-style-type: none"> • Business Segment Reporting • Geographical Segment Reporting • Operating Segment Reporting • Primary Vs Secondary Segment Reporting | [10] | CO3 | L3 |
| 3 (a) | Summarize any three key benefits of cost center. Answer: <ul style="list-style-type: none"> • Budget autonomy • Increased efficiency • Reduces costs | [03] | CO3 | L1 |
| (b) | What do you mean by responsibility center? Formulate any five current strategies to overcome major challenges in responsibility centers. Answer: A Responsibility Center is a segment of an organization where a manager is accountable for specific revenues, expenses, or investments, and is used to track and manage performance. <ul style="list-style-type: none"> • Performance Evaluation • Accountability • Resource Allocation • Strategic Decision Making | [07] | CO3 | L3 |
| (c) | Assess key principles of transfer pricing and their implications in pricing of goods, services, or intellectual property exchanged between related parties. Answer: Arm's Length Principle, Comparability Analysis, Consistency of Method, Functional Analysis, Substance Over Form, and Documentation and Compliance | [10] | CO3 | L3 |
| Part B - Compulsory (01*10=10 marks) – CASE STUDY | | | | |
| 4 | Alpha Manufacturing Ltd is a medium-sized company that produces electronic components for the automotive industry. Over the last few years, the company has faced significant competition and price pressures. The management decided to focus on improving overall performance through strategic initiatives and better cost management. They opted to implement a few performance-oriented management tools to gain a comprehensive view of the business, focusing not just on financial outcomes but also on internal processes, learning and growth, and customer satisfaction. The company was facing issues related to high production costs, poor customer satisfaction due to delivery delays, and inefficiencies in the manufacturing process. Management realized that focusing solely on financial metrics, such as cost reductions or profit margins, was insufficient for addressing the root causes of these problems. They needed a more holistic approach to align strategic objectives with day-to-day operations. | | | |

You are asked to recommend an effective performance management tool to manage and control the existing issues of the firm. Also discuss the key performance indicators in the context of cost management to measure the firm's overall cost structure and profitability.

Answer:

- Financial Perspective, Customer Perspective, Internal Business Processes Perspective, Learning and Growth Perspective
- Ensuring that cost-cutting measures do not compromise quality or delivery time, which would negatively impact customer retention.
- By improving internal processes, such as reducing waste, improving automation, and optimizing supply chain management, the company can lower production costs.
- By focusing on improving employee competencies and leveraging technology, the company can reduce costs related to inefficiencies and improve the long-term sustainability of cost management efforts.

[10]

CO4

L5

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| Course Outcomes (COs) | | PO1 | PO2 | PO3 | PO4 | PO5 | PSO1 | PSO2 | PSO3 | PSO4 |
|-----------------------|--|-----|-----|-------------------------|-------------------------|-----|------|-------------------------|-------------------------|------|
| CO1: | Understand the goals and strategies of business units (L2) | | | | | | | | | |
| CO2: | Determine standard costing and variance analysis cost control in Business decision making (L5) | | | 1 (a) 1 (b) 1 (c) | | | | 1 (a) 1 (b) 1 (c) | | |
| CO3: | Applications of Management accounting and control systems in Corporate (L3) | | | | 2 (a) 2 (b) 2 (c) | | | | 3 (a) 3 (b) 3 (c) | |
| CO4: | Critically evaluate all traditional and non-traditional costing methods such as absorption costing; marginal costing and activity-based costing (L5) | | 4 | | 4 | | | | | |

| 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