CBCS SCHEME

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22MBAFM303

Third Semester MBA Degree Examination, Dec.2024/Jan.2025
Strategic Cost Management

Time: 3 hrs. Max. Marks: 100

Note: 1. ***Answer any FOUR full questions from Q.No.1 to Q.No.7.***
2. ***Question No. 8 is compulsory.***
3. ***M : Marks , L: Bloom's level , C: Course outcomes.***

			M	L	C
Q.1	a.	What is strategic cost management?	03	L1	CO1
	b.	Briefly explain the different methods of costing.	07	L2	CO1
	c.	The following figures are extracted from the book of Babu Industries Ltd., for the year ending 31st March 2023.	10	L4	CO2

	Rs.
Direct materials	56,000
Direct wages	60,000
Indirect wages	8,000
Other direct expenses	12,000
Factory rent and rates	4,000
Office rent and rates	400
Indirect materials	400
Depreciation: Plant & Machinery	1200
Office furniture	100
General Expenses: Factory	4500
Office	800
Selling	800
Managing director's remuneration	9600
Travelling expenses	900
Office salaries	3600
Carriage outwards	800
Advertisement	1600
Sales	2,00,000
Income tax	2000
Dividend	1000

Prepare cost sheet showing:
(i) Prime cost (ii) Factory cost (iii) Cost of production
(iv) Cost of sales (v) Profit

Q.2	a.	What is meant by under and over absorption of overhead?	03	L1	CO2
	b.	The budgeted overheads and cost driver volumes of Moon Ltd. are as follows:	07	L4	CO4

Cost pool	Budgeted Overhead (Rs.)	Cost Driver	Budgeted Volume
Material procurement	5,80,000	No. of orders	1100
Material Handling	2,50,000	No. of Movements	680
Set-up	4,15,000	No. of set-ups	520
Maintenance	9,70,000	Maintenance hours	8400
Quality control	1,76,000	No. of inspections	900
Machinery	7,20,000	No. of machine hours	24000

		The company has produced a batch of 2600 components of 'MAT-365', its material cost was Rs.1,30,000 and labour cost was Rs.2,45,000. The usage activities of the said batch are as follows: Material orders = 26 Material movements = 18 Set-ups = 25 Maintenance hours = 690 Inspection = 28 Machine hours = 1800 Required: (i) Calculate cost driver rates that are used for tracing appropriate amount of overheads to the said batch. (ii) Ascertain the cost of batch of components using ABC.			
	c.	In a factory, there are three production departments A, B and C and two service departments X and Y. The departmental expenses for the month of January 2024 were given below:	10	L4	CO4

Production Depts	Service Depts
A – Rs.1,65,000	X – Rs.12,000
B – Rs.3,60,000	Y – Rs.10,000
C – Rs.2,50,000	

The service department expenses are allocated on a percentage basis as follows:

Depts	A	B	C	X	Y
X	30%	20%	30%	-	20%
Y	40%	30%	20%	10%	-

Prepare a statement showing the distribution of service department expenses to production departments under repeated distribution method.

Q.3	a.	From the following data calculate breakeven point: Selling price = Rs.200 per unit Variable cost = Rs.125 per unit Fixed cost = Rs.900000	03	L4	CO4
	b.	The sales turnover and profit during years 2022 and 2023 are given below:	07	L4	CO4

Year	Sales (Rs.)	Profit (Rs.)
2022	3,20,000	40,000
2023	3,60,000	50,000

Required:
(i) P/V ratio
(ii) Sales required to earn a profit of Rs.1,20,000.

	c.	Akash Ltd. is producing a spare part No. JT 2244, for its product. The cost of manufacturing 5000 units of JT 2244 is as under: Direct Materials – Rs.11,750 Direct Wages – Rs.94,000 Variable overheads – Rs.47,000 Fixed overheads – Rs.58,750 Another manufacturer is offering to sell the same spare part for Rs.41. It is estimated that by avoiding the production of this spare part, the company has to incur Rs.35,200 as fixed overheads. Should the company make of buy this spare part?	10	L4	CO4
Q.4	a.	What is variance analysis?	03	L1	CO2
	b.	Product 'AB' requires 20 kgs of materials at Rs.4 per kg. The actual consumption of material for the manufacturing of product 'AB' came to 24 kgs of materials at Rs.4.50 per kg. Calculate: i) Material cost variance ii) Material price variance iii) Material usage variance	07	L4	CO2
	c.	What is budgetary control? Explain different types of budgets.	10	L2	CO3

Q.5	**a.**	What is cost audit?	**03**	**L1**	**CO3**
	b.	What is management reporting? Explain the requisites of a good report.	**07**	**L2**	**CO3**
	c.	Write a detailed note on the following: (i) Cost reduction (ii) Cost control (iii) Target costing (iv) Balanced score card	**10**	**L3**	**CO3**
Q.6	**a.**	What is Revenue Centre?	**03**	**L1**	**CO3**
	b.	Write a note on cost management in Agriculture Sector.	**07**	**L3**	**CO3**
	c.	What is transfer pricing? Explain the methods of transfer pricing.	**10**	**L6**	**CO4**
Q.7	**a.**	From the following information, calculate profit by using marginal costing technique: Fixed cost = Rs.2,00,000 Variable cost = Rs.15 per unit Selling price = Rs.18 per unit Output level = 1,00,000 units	**03**	**L4**	**CO3**
	b.	The following information is provided with respect to A2Z Ltd for the six months of 2023 (and the sales of January 2024), in respect of product 'XY'. (i) The units to be sold in different months are: July 2023 = 1100, August 2023 = 1100, September 2023 = 1700, October 2023 = 1900, November 2023 = 2500, December 2023 = 2300 and January 2024 = 2000 (ii) There will be no work in progress at the end of any month. (iii) Finished units equal to half the sales of the next month will be in stock at the end of every month (including June 2023). You are required to prepare production budget for the six months of 2023.	**07**	**L3**	**CO4**
	c.	From the following data calculate machine hour rate: Cost of machine = Rs.30,500, Scrap value = Rs.2500 , Estimated life of machine = 12 years, Working days per year 200 days of 8 hours, 100 days of 6 hours, Repairs and maintenance 7.5% of the cost of machine, Stores issued = Rs.1000, Power consumption Rs.2 per operative hour, Insurance premium 1% of cost of machine, Supervision (per year) = Rs.7500, Idle time estimate 10%.	**10**	**L4**	**CO4**
Q.8		Case Study: Atom Co. can produce 4000 units of a product at 100% capacity. The following information is available from its records:	**20**	**L3**	**CO4**

	November	December
Units produced	2800	3600
	Rs.	Rs.
Power	1800	2000
Repairs and maintenance	500	560
Indirect labour	700	900
Consumable stores	1400	1800
Inspection	200	240
Depreciation	1400	1400
Salaries	1000	1000

Direct material cost per unit is Re.1 and direct wages per hour is Rs.4. Rate of production per hour is 10 units. You are required to:

(i) Compute the cost of production at 100%, 80% and 60% capacity levels showing variable, fixed and semi-variable items under the flexible budget.

(ii) Compute overhead absorption rate at 80% capacity.

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First Semester MBA Degree Examination, Dec. 2024/Jan.2025

Strategic Cost Management

Time: 3 hrs. Max. Marks: 100

Notes: 1. Answer any Four full questions from Q.No.1 to Q.No.7

2. Question No.8 is compulsory

3. M: Marks, L: Bloom's Level, C: Course Outcome

ANSWER KEY

			M	L	C
Q.1	a.	Strategic cost management is the process that aims to strengthen a company's strategic position by carefully controlling costs according to the company's broader objectives.	03	L1	CO1
	b.	**Job Costing:** Job costing is a type of accounting where the cost of each job is taken into account and calculated. **Contract Costing:** Contract costing is a form of particular order costing that contractors generally apply for orders of a long duration. **Cost-plus Costing:** Cost-plus costing is implemented when, in a contract, the contractor receives both the predetermined contract price and an additional mutually agreed-upon amount. **Batch Costing:** Batch costing is the practice of grouping orders or tasks into distinct batches, considering the efficient production of items as a primary factor. **Process Costing:** Process costing is applicable when a product undergoes various sequential phases, each of which is clearly defined, distinguishable, and easily separable from the others.	07	L2	CO1
	c.	**Solution:** Prime Cost: 1,28,000 Factor Cost: 1,46,100 Cost of Production: 1,61,500 Cost of Sales: 1,64,700 Profit: 35,300	10	L4	CO2
Q.2	a.	Overhead is over absorbed when the amount allocated to a product or other cost object is higher than the actual amount of overhead, while the amount is under absorbed when the amount allocated is lower than the actual amount of overhead.	03	L1	CO2
	b.	**Solution:** (i) Cost Driver Rates: Material procurement = Rs. 527.27 per order Material handling = Rs. 367.65 per movement Set-up = Rs. 798.08 per set-up Maintenance = Rs. 115.48 per hour Quality control = Rs. 195.56 per inspection Machinery = Rs. 30.00 per machine hour (ii) Total Cost of the Batch = Rs. 5,54,435.60	07	L4	CO4
	c.	**Solution:** **Department** | **Total (Rs.)** A | 1,65,000 + 3,600 + 4,160 + 192 + 51.2 + 1.92 + 0.512 = Rs.1,74,005.63 B | 3,60,000 + 2,400 + 3,120 + 128 + 38.4 + 1.28 + 0.384 = Rs.3,66,688.06 C | 2,50,000 + 3,600 + 2,080 + 192 + 25.6 + 1.92 + 0.256 = Rs.2,61,899.78	10	L4	CO4
Q.3	a.	**Solution:** Contribution=SP−VC=200−125=Rs.75 BEP = 9,00,000/75 = 12,000 units.	3	L4	CO4

	b.	**Solution:** P/V Ratio = 10,000/40,000*100 = 25% (i) P/V Ratio = 25% (ii) Sales required to earn Rs. 1,20,000 profit = Rs. 6,40,000	07	L4	CO4
	c.	**Solution:** Total Relevant Make Cost = Rs. 11,750 + 94,000 + 47,000 + 23,550 = Rs. 176,300 Per unit Make Cost = Rs. 176,300 / 5,000 = Rs. 35.26 Option | Total Cost | Per Unit Cost Make | Rs. 176,300 | Rs. 35.26 Buy | Rs. 205,000 | **Rs. 41.00** Making the part is cheaper by Rs. 28,700, so the company should continue manufacturing the spare part.	10	L4	CO4
Q.4	a.	Variance analysis is the accounting process that compares planned or projected performance in the business to actual results. It is a quantitative tool that is intended to identify deviations and their underlying causes.	03	L1	CO2
	b.	**Solution:** MCV=(4×20)−(4.50×24)=80−108=28 (Adverse) MPV=(4–4.50)×24=−0.50×24=12 (Adverse) MUV=(20–24)×4=−4×4=16 (Adverse)			
	c.	Budgetary control is a financial management technique that involves establishing budgets, comparing actual results with budgeted figures, and taking corrective actions to ensure that financial activities align with planned objectives. Types of Budget: Master Budget, Cash Budget, Production Budget, Flexible Budget, Material Purchase Budget, etc	10	L2	CO3
Q.5	a.	A cost audit evaluates a company's cost structure and financial practices to ensure efficiency and regulatory compliance.	03	L1	CO3
	b.	Management reporting is a process of creating internal reports that help managers and executives track performance, understand business activities, and make informed decisions. A good report is accurate, concise, and clear, with a suitable title and attractive presentation	07	L2	CO3
	c.	**Cost reduction:** Cost reduction is a proactive and strategic process of minimizing unnecessary expenses to improve profitability and operational efficiency **Cost control:** Cost control is a systematic process of monitoring, managing, and regulating expenses within an organization to maintain financial stability and achieve profitability Target costing: Target costing is a cost management approach where a company determines the maximum allowable cost for a product, based on its expected selling price and desired profit margin **Business score card:** A "business scorecard" typically refers to a Balanced Scorecard (BSC), a strategic management tool used to measure and improve an organization's performance	10	L3	CO3
Q.6	a.	A revenue center in business is a division or department within an organization that generates revenue, either from selling products or providing services.	03	L1	CO3
	b.	Reducing input costs Managing labor efficiently Controlling water and energy usage and Implementing effective risk management and Marketing practices	07	L3	CO3
	c.	Transfer pricing methods are ways of establishing arm's length prices or profits from transactions between associated enterprises. Methods: Cost Plus Method, Comparable Uncontrolled Price Method, Profit Split Method, Resale Price Method, etc.	10	L6	CO4
Q.7	a.	**Solution:** Profit=Total Contribution−Fixed Cost=3,00,000−2,00,000=Rs.1,00,000			
	b.	**Solution:** Production (units)=Sales for the month+Closing Stock of Finished Goods−Opening Stock of Finished Goods Month | July 2023 | August 2023 | September 2023 | October 2023 | November 2023 | December 2023 Production (Units) | 1100 | 1400 | 1800 | 2200 | 2400 | 2150			
	c.	**Solution:**			

<table>
<tr><td></td><td></td><td>Total available hours=1600+600=2200 hours, Effective (productive) hours=2200−220= 1980 hours, Machine Hour Rate = Total Annual Cost/Effective hours = 18385.83/1980 = Rs.9.29 per hour.</td><td></td><td></td><td></td></tr>
<tr><td colspan="6">Compulsory Questing</td></tr>
<tr><td>Q.8</td><td></td><td>Solution:
(i) Flexible Budget

<table><tr><td>Capacity</td><td>Total Cost</td></tr><tr><td>60%</td><td>9,890</td></tr><tr><td>80%</td><td>11,925</td></tr><tr><td>100%</td><td>13,960</td></tr></table>
(ii) Overhead Absorption Rate at 80% Capacity = Rs. 2.33 per unit</td><td>20</td><td>L3</td><td>CO4</td></tr>
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