



11224

III Semester M.Com. Examination, May/June 2023

(CBCS Scheme)

COMMERCE

Strategic Cost Management – I

Time : 3 Hours

Max. Marks : 70

SECTION – A

1. Answer **any seven** of the following sub-questions. **Each** sub-question carries **two** marks. (7×2=14)
- What is strategic cost management ?
 - What is life cycle costing ?
 - What is JIT ?
 - What do you mean by value chain ?
 - What is VED analysis ?
 - Give the meaning of target costing.
 - What are sunk cost ?
 - What do you mean by benchmarking ?
 - What is business process re-engineering ?
 - State any two disadvantages of ABC system.

SECTION – B

Answer **any four** of the following questions. **Each** question carries **five** marks. (4×5=20)

- "Life Cycle Costing is the profiling of cost over a products production life". Justify.
- Meena is a news reporter and feature writer for an economic daily. Her assignment is to develop a feature article on 'Product Life-Cycle Costing', including interviews with the Chief Financial Officers (CFO) and operating managers. Meena has been given a liberal budget for travel so as to research into company's history, operations and market analysis for the firm she selects for the article. Prepare the article for the same on behalf of Meena. Explain the nature and scope of cost control and cost reduction. Which of the two is superior ?
- Discuss the merits and demerits of lean cost management.

P.T.O.



5. The total factory overheads for continental styles is budgeted for the year at Rs. 3,60,000. Continental manufactures two types of men's pants : Jeans and Khakis. The Jeans and Khakis each require 0.15 direct labour hour for manufacture. Each product is budgeted for 20,000 units of production for the year. Determine :
- The total number of budgeted direct labour hours for the year.
 - The single plant wide factory overhead rate.
 - The factory overhead allocated per unit for each product using the single plant wide factory overhead rate.
6. Describe main types of benchmarking of critical success factor.
7. Memory media is considering a change to activity-based product costing. The company produce two products : CDs and DVDs, in a single production department. The production department is estimated to require 4,000 direct labour hours. The total indirect labour is budgeted to be Rs. 4,20,000. Time records from indirect labour employees revealed that they spend 40% of their setting up production run and 60% of their time supporting actual production.

	Number of set-ups	Direct labour hours	Units
CDs	500	2,000	75,000
DVDs	1,100	2,000	75,000
Total	1,600	4,000	1,50,000

Requirement :

- Determine the indirect labour cost per unit allocated to CDs and DVDs under a single plantwide factory overhead rate system using the direct labour hours as the allocation base.
- Determine the activity pools and activity rates for the indirect labour under activity-based costing. Assume two activity pools-one for set-up and other for production support.
- Determine the activity cost per unit for indirect labour allocated to each product under activity-base costing.

SECTION – C

Answer **any three** of the following questions. **Each** question carries **twelve** marks.

(3×12=36)

8. S & C Ltd. is about to replace it's rapidly deteriorating boiler equipment. Three types of boiler system are being considered as a suitable replacement :
- A) Coal-fired B) Gas-fired and C) Oil-fired



The associated costs are as follows (Rs. in '000)

Boiler System	A	B	C
Cost of boiler (Including installation and commissioning)	550	740	640
Annual fuel cost	270	230	250
Annual operating labour costs	80	–	–
Annual maintenance cost	40	30	30
Annual electricity cost	10	10	10
Total operating cost	400	270	290

The new boiler system is expected to last at least 10 years. The company has an opportunity cost of finance of 10% per year. Which system should be chosen ?

9. Ratna Food Company manufactures three types of snack foods, Tortilla chips, Potato chips and Pretzels. The company has budgeted the following costs for the upcoming period.

Factory depreciation	12,900
Indirect labour	30,200
Factory electricity	3,500
Indirect materials	6,650
Selling expenses	17,025
Administrative expenses	9,600
Total costs	79,875

Factory overhead is allocated to the three products on the basis of processing hours. The products had the following production budget and processing hours per case :

	Budgeted Processing volume (cases)	Production Hours per case
Tortilla chips	3,000	0.12
Potato chips	4,800	0.10
Pretzels	1,500	0.15
Total	9,300	

Required :

- Determine the single plantwide factory overhead rate.
- Use the factory overhead rate in (a) to determine the amount of total and per-case factory overhead allocated to each of the three products under generally accepted accounting principles.





10. A and Co. is contemplating whether to replace an existing machine or to spend money on overhauling it. A and Co. currently pays no taxes. The replacement machine costs Rs. 90,000 now and requires maintenance of Rs. 10,000 at the end of every year for eight years. At the end of eight years it would have a salvage value of Rs. 20,000 and would be sold. The existing machine requires increasing amounts of maintenance each year and its salvage value falls each year as follows :

Year	Maintenance	Salvage
Present	0	40,000
1	10,000	25,000
2	20,000	15,000
3	30,000	10,000
4	40,000	0



(Note: Present value of an annuity of Re. 1 per period for 8 years at interest rate of 15% : 4.4873 ; present value of Re. 1 to be received after 8 years at interest rate of 15% : 0.3269).

The opportunity cost of capital for A and Co. is 15%.

Required : When should the company replace the machine ?

11. A machine used on a production line must be replaced at least every four years. The costs incurred in running the machine according to its age are :

Particulars	Age of machine (years)				
	0	1	2	3	4
Purchase price	3,000				
Maintenance		800	900	1,000	1,000
Repairs			200	400	800
Net realizable value		1,600	1,200	800	400

Future replacement will be identical machines with the same costs. Revenue is unaffected by the age of the machine. Assume there is no inflation and ignore tax. The cost of capital is 15%. Determine the optimum replacement cycle. Present value factors at 15% for years 1, 2, 3 and 4 are 0.8696, 1.6257, 2.2832 and 2.8550 respectively.

12. Explain the different types and methodology involved in business process re-engineering.