21COM3C13L

M.Com. III Semester Degree Examination, April/May - 2023

COMMERCE

Strategic Cost Management

(CBCS)

Time : 3 Hours

Maximum Marks : 70

Note : *Answer **any five** of the following questions with question No. 1 **(Q. 1) Compulsory**. Each question carries **fourteen** marks.*

1. A Company manufacturing two products furnishes the following data for a year : **14**

Product	**Annual output (Units)**	**Total Machine hours**	**Total number of purchase orders**	**Total number of set-ups**
A	10,000	40,000	320	40
B	1,20,000	2,40,000	768	88

The annual overheads are as under :

Volume related activity costs	₹ 11,00,000
Set-up related costs	₹ 16,40,000
Purchase related costs	₹ 12,36,000

You are required to calculate the cost per unit of each Product Star and Super Star based on :

(a) Traditional method of charging overheads.

(b) Activity based costing method.

2. (a) Explain the Factors Affecting Learning Curve. **7**

(b) Raja Projects Ltd., anticipates 80% learning curve, will apply to the production of a new item. The first item will cost Rs. 2,000 in materials and will take 500 labor hours. The cost per hour for labor and variable overheads is Rs. 5. You are required to calculate the total cost for the first unit and for the first 8 units. **7**

3. (a) What is Life Cycle Costing ? Explain in brief the phases of Life Cycle Costing. 7

(b) Vijay Fertilizers Ltd. supports the concept of the terotechnology (Life Cycle Costing) for new investment decisions covering its engineering activities. The finalized of this philosophy is now well established and its principles extended to all other areas of decision making. The company is to replace a number of its machines and the Production Manager is to run between the 'X' machine, a more expensive machine with a life of 12 years, and the 'W' machine with an estimated life of 6 years. If the 'W' machine is chosen it is likely that it would be replaced at the end of 6 years by another 'W' machine. The pattern of maintenance and running costs differs between the two types of machines and relevant data are shown below. 7

(Rs.)

Particulars	**X**	**W**
Purchase price	19,000	13,000
Trade - in value	3,000	3,000
Annual repair costs	2,000	2,600
Overhead costs (p.a.)	4,000	2,000
Estimated financing costs averaged over machine life (p.a.)	10%	10%

You are required to recommend, with supporting figures, which machine to purchase, stating any assumptions made.

4. (a) What are the objectives of JIT approach ? Is JIT responsible for bringing changes in a firm ? Explain. 7

(b) XYZ Ltd. presently has its inventory turnover (based on cost of goods sold/ average inventory) at 10 times p.a. as compared with the industry average of 4. Average sales is Rs. 5,50,000. p.a., variable cost of sales is 70% of sales and fixed cost is Rs. 20,000 per annum. Carrying cost of inventory (excluding financing costs) is 5% per annum. Sales force complained that low inventory levels are resulting in lost sales due to stock-outs. The sales manager has made an estimate, based on stock-out reports as under : 7

Inventory policy	Inventory turnover	Sales in Rs.
Current	10	5,50,000
A	8	6,00,000
B	6	6,40,000
C	4	6,65,000

On the basis of the above estimate and assuming a 40% tax rate and an after-tax required of 20% on investment in inventory, which policy would you recommend ?

5. (a) Explain the key principles of target costing. **7**

(b) Few details pertaining to the products of Star Company are presented below. Based on these, determine (a) target costs for each of the products and (b) cost-reduction targets for each of its products. **7**

Particulars	Product			
	A	B	C	D
Expected sales quantity (Units)	1,00,000	1,50,000	2,00,000	50,000
Anticipated selling price (Rs.)	200	180	220	250
Desired rate of return on sales (%)	25	30	20	40
Current feasible cost per unit (Rs.)	160	130	190	200

6. Shree Ltd. has observed that a 90% learning curve ratio applies to all labor-related costs each time model enters production. It is anticipated that 320 units of a new model will be manufactured during 2020. Direct labor costs for the first lot of 10 units amount to 1,000 hours at Rs. 8 per hour. Variable overhead cost is Rs. 2 per direct labor hour. **14**

You are required to determine the following.

(a) Total labor and labor-related variable cost to manufacture 320 units of output.

(b) Average cost of the first (i) 40 units produced, (ii) 80 units produced and (iii) 100 units produced.

Incremental cost of (i) units 41-80 and (ii) units 101-200.

7. (a) Explain the Methodology in Implementation of Just-In-Time. **7**

(b) Explain the methods for establishment of target cost. **7**

8. Write a short note on :

(a) Experience Curve **4**

(b) Project life cycle costing **5**

(c) Target costing Vs Traditional Cost Management **5**

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