This question paper contains 8+2 printed pages]

Your Roll No. ....

2886

M.Com./Sem. III (NC) **F**

Paper MN351 : Strategic Cost Management

Time : 3 *Hours* *Maximum Marks* : 100

(Write your Roll No. on the top immediately on receipt of this question paper.)

Attempt *All* questions.

All questions carry equal marks.

1. (*a*) Define cost management and strategic cost management. Discuss the factors influencing cost management in an organization. 10

(*b*) Explain the advantages and disadvantages of Activity-Based Costing (ABC). 10

P.T.O.

Or

(*a*) What is Activity-Based Management (ABM) ? Discuss the different techniques of ABM. 10

(*b*) What are the features of Total Quality Management ? Explain different types of quality costs. 10

2. Distinguish between traditional budgeting and Activity-Based Budgeting (ABB). Discuss the steps required in preparing an Activity-Based Budget. 20

Or

Explain the key principles of target costing. Discuss the advantages and limitations of target costing. 20

3. Discuss the following techniques of cost management : 20

(*i*) Kaizen costing

(*ii*) Benchmarking

(*iii*) Life cycle costing.

Or

Explain different linkages in value chain analysis. Discuss the importance of value chain analysis and steps needed in value chain analysis. 20

4. Distinguish between JIT and traditional approach to inventory management. What are the key elements in implementing JIT manufacturing ? Explain how an organization benefits from JIT system. 20

Or

What is Theory of Constraints (TOC) ? What are the different steps in TOC ? Discuss the advantages of TOC in improving organizational performance. 20

5. XYZ Ltd. manufactures four products, namely A,B,C, and D using the same plant and process. The following information relates to a production period :

Product	A	B	C	D
Output in units	720	600	480	504
Cost per unit	Rs.	Rs.	Rs.	Rs.
Direct Material	42	45	40	48
Direct Labour	10	9	7	8
Machine hours per unit	4 hrs.	3 hrs.	2 hrs.	1 hr.

The four products are similar and are usually produced in production runs of 24 units and sold in batches of 12 units. The company is using machine hour rate currently which absorbs the production overheads. The total overheads incurred by the company for the period is as follows :

	Rs.
Machine operation and maintenance cost	63,000
Set up costs	20,000
Store receiving	15,000
Inspection	10,000
Material Handling and dispatch	2,592

During the period the following cost drivers are to be used for the overhead cost :

Cost	**Cost driver**
Set up cost	No. of production runs
Store receiving	Requisition raised
Inspection	No. of production runs
Material handling and dispatch	Orders executed

It is also determined that :

- Machine operation and maintenance cost should be apportioned between set-up cost, store receiving and inspection activity in 4 : 3 : 2.
- Number of requisition raised on store is 50 for each product and the no. of order executed is 192, each order being for a batch of 12 of a product.

Required :

(*a*) Calculate the total cost of each product, if all overhead costs are absorbed on machine hour rate basis.

(*b*) Calculate the total cost of each product using activity based costing.

(*c*) Comment briefly on differences disclosed between overhead traced by present system and those traced by activity based costing. 20

Or

Raymond Fibers Ltd. specializes in the manufacture of synthetic fibers that the company uses in many products such as blankets, coats, and uniforms for police and firefighters. Raymond has been in business since 1975 and has been profitable every year since 1983. The company uses a standard cost system and applies overhead on the basis of direct labour hours.

Raymond has recently received a request to bid on the manufacture of 8,00,000 blankets scheduled for delivery to several military bases. The bid must be stated at full cost per unit plus a return on full cost of no more than 9% after income taxes. Full cost has been defined as including all variable costs of manufacturing a product, a reasonable amount of fixed overhead, and reasonable incremental administrative cost associated with the manufacture and sale of the product. The contractor has indicate that bids in excess of Rs. 250 per blanket are not likely to be considered.

In order to prepare the bid for the 8,00,000 blankets. Rahul, cost accountant, has gathered the following information about the costs associated with the production of blankets :

Direct material*	Rs. 15 per pound of fibers
Direct labour	Rs. 70 per hour.
Direct machine costs*	Rs. 100 per blanket
Variable overhead	Rs. 30 per direct labour hour
Fixed overhead	Rs. 80 per direct labour hour
Incremental administrative costs	Rs. 25,000 per 1,000 blankets
Special fee**	Rs. 5 per blanket
Material usage	6 pounds per blanket
Production rate	4 blankets per direct labour hour
Effective tax rate	40%

* Direct machine costs consist of items such as special lubricants, replacements of needles used in stitching and maintenance costs. These costs are not included in the normal overhead rates.

** Raymond recently developed a new blanket fiber at a cost of Rs. 75,00,000. In an effort to recover this cost. Raymond has instituted a policy of adding a Rs. 5 fee to the cost of each blanket using the new fiber. To date, the company had recovered Rs. 12,50,000. Rahul knows that this fee does not fit within the definition of full cost, as it is not a cost of manufacturing the product.

Required :

(*i*) Calculate the minimum price per blanket that Raymond could bid without reducing the company's operating income.

(*ii*) Using the full cost criteria and the maximum allowable return specified, calculate Raymond's bid price per blanket.

(*iii*) Without prejudice to your answer to Requirement 2, assume that the price per blanket that Raymond calculated using the cost-plus criteria specified is greater than the maximum bid of Rs. 250 per blanket allowed. Discuss the factors that Raymond should consider before deciding whether or not to submit a bid at the maximum acceptable price of Rs. 250 per blanket. 20