Roll No. | | | | | | | | | | | | **Total No. of Pages : 04**

Total No. of Questions : 09

M.Com. (Sem.–2)

STRATEGIC COST MANAGEMENT

Subject Code : MCOP-204

M.Code : 71525

Date of Examination : 20-12-22

Time : 3 Hrs. **Max. Marks : 80**

INSTRUCTIONS TO CANDIDATES :

1. **SECTIONS-A, B, C & D contains TWO questions each carrying FIFTEEN marks each and students have to attempt any ONE question from each SECTION.**
2. **SECTION-E is COMPULSORY consisting of TEN questions carrying TWENTY marks in all.**

SECTION-A

1. Define strategic cost Management? How conventional cost management differ from strategic cost management. What are the important parameters of value analyses in the era of globalization? Explain with the help of example, procedure and advantage value analyses.

2. What is product life cycle costing? Summaries the product life cycle feature and state how PLC concept used by marketing manager to interpret the product and market dynamics?

SECTION-B

3. ABC company produces two types of stereo units. Activity data follows :

Activity Usage Measure	Product-costing data		
	Deluxe	**Regular**	**Total**
Units produced per year	5,000	50,000	55,000
Prime cost (Rs.)	39,000	3,69,000	4,08,000
Direct labour hours	5,000	45,000	50,000
Machine hours	10,000	90,000	1,00,000
Production runs	10	5	15
Number of moves	120	60	180

Activity cost data (overhead activities)

Activity	Activity cost (Rs.)
Setting up equipment	60,000
Material handling	30,000
Using power	50,000
Testing	40 000
Total	**1,80,000**

Required:

a) Calculate the consumption ratios for each activity.

b) Group activities based on the consumption ratios and activity level.

c) Calculate a rate for each pooled group of activities.

d) Using the pool rates, calculate unit product costs.

4. Anupam International LTD produces three products A, B, C each requiring more than one labour operation. Labour requirement per unit of output is given below:

Operation	A	B	C
1	10	20	5
2	5	-	10
3	15	10	5

The factory works for 8 hours per day for 26 days in a month. In a month 8 hours are lost due to various reasons. The budgeted hourly rates for the workers in operations 1,2 and 3 are Rs.4, Rs.5 and Rs.6 respectively.

The budgeted production during the Month for the three products is as follows :

PRODUCT A 4000 units

PRODUCT B 6000 units

PRODUCT C 8000 units

Prepare a labour budget for the month showing for each operation i) direct labour hour ii) direct labour cost and (iii) the number of workers.

SECTION-C

5. Following a strategy of product differentiation, Westwood Corporation makes a high end kitchen range hood, KE8. Here's Westwood's data

		2003	2004
1.	Units of KE8 produced and sold	40000	42000
2.	Selling price	$100	$110
3.	Direct materials(square feet)	120000	123000
4.	Direct materials costs per square foot	$10	$11
5.	Manufacturing capacity for KE8	50000 UNITS	50000 UNITS
6.	Conversion costs	$1000000	$1100000

7.	Conversion costs per unit of capacity	$20	$22
8.	Selling and customer service capacity	30 customers	29 customers
9.	Selling and customer service costs	$ 720 000	$725 000
10.	Cost per customer of selling and customer		
	Service capacity	$24000	$25000

Westwood produced no defective units and reduced direct material usage per unit of KE8 in 2003. Conversion costs in each year are tied to Manufacturing capacity. Selling and customer service costs are related to the number of customer that the selling and service functions are designed to support. Westwood has 23 customers in 2002 and 25 customers in 2003.

Required :

a) Describe briefly the element you would include in Westwood's balance scorecard.

b) Calculate the growth, price discovery and productivity components that explains the change in operating income from 2002 to 2003.

c) Suppose during 2003, the market for high end kitchen range hoods grew at 3% in terms of number of units that all increases in market share (that increase in the number of units sold greater than 3%) are due to Westwood's product differentiation strategy. Calculate how much change in operating income from 2002 to 2003 is due to the industry market size factor, cost leadership, and product differentiation.

d) How successful has Westwood been in implementing its strategy? Explain.

6. Describe the concept of just in time manufacturing system. In the context of just in time purchasing technique, reporting of traditional material price variance may be inappropriate. Discuss the statement.

SECTION-D

7. At the beginning of 2001, Suskin Inc., initiated a quality improvement program. Considerable effort was expended to reduce the number of defective units produced. By the end of the year, reports from the production manager revealed that scrap and rework had both decreased. The CFO was pleased to hear of the success but wanted some assessment of the financial impact of the improvements. To make this assessment, the following financial data were collected for the current and preceding two years:

	1999	**2000**	**2001**
Sales	10,000,000	10,000,000	10,000,000
Scrap	4,50,000	4,00,000	3,00, 000
Rework	6,25,000	6,00,000	4,00,000
Product inspection	1,00,000	1,20,000	1,25,000
Product warranty	8,75,000	8,00,000	6,00,000
Quality training	20,000	40,000	80,000
Materials inspection	80,000	40,000	40,000

Required :

a) Classify the costs as prevention, appraisal internal failure and external failure.

b) Compute total quality cost as a percentage of sales for each of the years. By how much has profit increased because of quality improvement between 1999, 2000 and 2001?

c) Graph the prevention and appraisal costs versus the internal failure and external failure costs for 1999, 2000 and 2001. Extrapolate the curves to show optimal quality point.

d) Consider the quality costs as non-value-added activities. Describe how these activities might be eliminated?

8. What do you mean by balance score card ? Explain the major components of balance score card. ''In many organizations, initiative to introduce balance scorecard failed because efforts were made to negotiate targets rather than to build concensus''. Elucidate the given statement

SECTION-E

9. Write short note on the following in 2-5 lines :

a. Explain three merits of benchmarking.

b. What is balance score card ?

c. How fixed budget differ from flexible budget?

d. Define responsibility center.

e. Discuss in detail benefits of budgeting.

f. Define BPR.

g. How will you calculate indirect cost with activity based costing?

h. What do you mean by JIT ?

i. How will you calculate life cycle costing?

j. Define transfer pricing.

NOTE : Disclosure of Identity by writing Mobile No. or Making of passing request on any page of Answer Sheet will lead to UMC against the Student.