IV Semester M.Com. Degree Examination, June/July 2018
(CBCS)
COMMERCE
AT 4.3 : Strategic Cost Management – II

Time : 3 Hours Max. Marks : 70

SECTION – A

1. Answer **any seven** of the following sub-questions (in about **3-4** lines **each**). **Each** sub-questions carries **two** marks. **(7×2=14)**

a) What do you mean by Marginal Cost Pricing ?

b) Mention the factors by which the choice of strategy is influenced.

c) Mention any two objectives of transfer pricing.

d) Differentiate between learning curve and experience curve.

e) State any two examples for prevention cost.

f) What do you mean by cost of Non-conformance ?

g) Define TQM.

h) What do mean by Benchmarking ?

i) State any three criteria for setting transfer prices.

j) What do you mean by customer perspective in Balanced Score Card ?

SECTION – B

Answer **any four** of the following (in about **one** page). **Each** question carries 5 marks. **(4×5=20)**

2. "The learning curve will pass through three different phases." Discuss.

3. SLV Ltd., budgets to make 1,00,000 units of product P. The variable cost per unit is Rs. 10. Fixed cost are Rs. 6,00,000. The finance director has suggested that the cost plus approach should be used with a profit mark up of 25%. However, the marketing director disagreed and has supplied the following information :

Price per unit (Rs.)	Demand (Units)
18	84000
20	76000
22	70000
24	64000
26	54000

As Management Accountant of the company analyze the above proposal and comment.

4. Explain the procedure in the implementation of cost of quality report.

5. A company manufactures a specialized equipment. Direct labour required to make the first equipment is 2000 hours. Learning curve is 80%. Direct labour cost is Rs. 4 per hour. Direct material needed for one equipment is Rs. 7,200. Fixed overheads are Rs. 32,000.

   Required :

   i) Using the learning curve concept calculate the expected average unit cost of making (a) 4 equipments and (b) 8 equipments.

   ii) After manufacturing 8 equipments, if a repeat order for manufacturing of another 8 equipments is received, what lowest price can be quoted for the repeat order ?

6. "Quality improvement process of the TQM process is through a six-step activity sequence, identified by the acronym PRAISE". Discuss.

7. A company manufactures two types of herbal product, A and B. Its budget shows profit figures after apportioning the fixed joint cost of Rs. 15 lakhs in the proportion of the numbers of units sold. The budget for 2012 indicates :

Particulars	A	B
Profit in Rs.	1,50,000	30,000
Selling price per unit in Rs.	200	120
P/V Ratio (%)	40	50

Due to change in manufacturing process, the joint fixed cost would be reduced by 15% and the variable would be increased by 7%. You are required to advice the company, if it expects that the number of units to be sold would be equal.

SECTION – C

Answer **any three** of the following. **Each** question carries **12** marks. **(3×12=36)**

8. "TQM is concerned with technical aspects of quality as well as the involvement of people in quality, such as customers, company employees and suppliers." Explain.

9. X Ltd., manufactures a standard product, the marginal costs (per unit) of which are as follows :

Direct materials (Rs.)	160.00
Direct wages (Rs.)	120.00
Variable overheads (Rs.)	20.00
Total (Rs.)	**300.00**

Its annual budget includes the following : Output : 40,000 units

Fixed overheads : **(Rs.)**

Production	80,00,000
Administration	48,00,000
Marketing	40,00,000
Total	**1,68,00,000**

Contribution Rs. 2,00,00,000

Recently, the top management of the organization has started thinking in terms of revising its budget and some alternatives in the form of proposals (stated below) were discussed in the last board meeting.

Proposal 1 : The organization expects a profit of Rs. 48,00,000 and wants to know the selling price to be quoted for that purpose. It is estimated that

a) An increase in advertising expenditure of Rs. 9,44,000 would result in a 10% increase in sales, and

b) Fixed production overheads and marketing overheads would increase by Rs. 2,00,000 and Rs. 1,36,000 respectively.

Proposal 2 : The organization expects that, with an additional advertising expenditure, sales would go up by 20% and a profit margin of 15% would be obtained. Under the circumstances, fixed production overheads and marketing overheads are expected to increase by Rs. 3,20,000 and Rs. 2,00,000 respectively. The organization wants to know the additional expenditure on advertisement required with a view to achieving the result.

You are required to draw up forecast statement for each of these alternatives and determine the selling price per unit to be quoted (Proposal 1) and the additional expenditure on advertisement required (Proposal 2).

10. "Balanced Scorecard is a strategic performance measurement model which translate an organization's mission and vision into actual measurable actions". Explain.

11. M/s Foamstar has two divisions Foam and Star. Foam manufacturers have an intermediate product for which there is no intermediate external market. Star incorporates this intermediate product into final product which it sells. One unit of the intermediate product is used in the production of the final product. The expected units of the final product which Star division estimates it can sell at various selling prices are as follows :

Net selling price (in Rs.)	Quantity sold (in Units)
1000	10,000
900	20,000
800	30,000
700	40,000
600	50,000
500	60,000

The costs of each division are as follows :

	Foam	Star
Variable cost per unit (Rs.)	110	70
Fixed cost per unit (Rs.)	60,00,000	90,00,000

The transfer price is Rs. 350 for the intermediate product and is determined on a full cost plus basis. You are required to :

a) Prepare profit statements for each division and the company as a whole for the various selling prices.

b) State which selling price maximize profit for the Star division and the company as a whole and comment on why the latter selling price is not selected by Star Division.

c) State which transfer pricing policy will maximize the company's profit under a divisional organization.

12. A Modern Packing Corporation specializes in the manufacture of one-liter plastic bottles. The firm's customers include dairy processors, fruit juice manufactures and manufactures of edible oils. The bottles are produced by a process called blow moulding. A machine heats plastic to the melting point. A bubble of molten plastic is formed inside a mould, and a jet of hot air is forced into the bubble. This blows the plastic into the shape of the mould. The machine releases the moulded bottle, an employee trims off any flashing (excess plastic around the edge), and the bottle is complete.

The Firm has four moulding machines, each capable of producing 100 bottles per hour. The firm estimates that the variable cost of producing a plastic bottle is 20 paise. The bottles are sold for 50 paise each.

Management has been approached by a local toy company that would like the firm to produce a moulded plastic toy for them. The toy company is willing to pay Rs. 3.00 per unit for the toy. The variable cost of manufacture the toy will be Rs. 2.40. In addition, Modern Packing Corporation would have to incur a cost of Rs. 20,000 to construct the needed mould exclusively for this order. Because the toy uses more plastic and is of a more intricate shape than a bottle, a moulding machine can produce only 40 units per hour. The customer wants 1,00,000 units. Assume that Modern Packing Corporation has the total capacity of 10,000 machine hours available during the period in which the toy company wants the delivery of toys. The firm's fixed costs, excluding the costs to construct the toy mould, during the same period will be Rs. 2,00,000.

Required :

a) If the management predicts that the demand for its bottles will require the use of 7,500 machine hours or less during the period, should be special order be accepted ? Give the reasons.

b) If the management predicted that the demand for its bottles would be higher than its ability to produce bottles, should the order be accepted ? Why ?

c) The management has located a firm that has just entered the moulded plastic business. The firm has considerable excess capacity and more efficient moulding machines and is willing to subcontract the toy job, or any portion of it for Rs. 2.80 per unit. It will construct its own toy mould. Determine Modern Packing Corporation's minimum expected excess machine hour capacity needed to justify producing any portion of the order itself rather than subcontracting it entirely.

d) The management predicated that it would have 1,600 hours of excess machine hour capacity available during the period. Consequently, it accepted the toy order and subcontracted 36,000 units to the other plastic company. In fact demand for bottles turned out to be 9,00,000 units for the period. The firm was able to produce only 8,40,000 units because it had to produce the toys. What was the cost of the prediction error failure to predict demand correctly ?
