III Semester M.Com. Degree Examination, May/June 2023
(CBCS Scheme)
(2021 – 22 Onwards)
COMMERCE
Paper – AT-3.4 : Strategic Cost Management – I

Time : 3 Hours Max. Marks : 70

SECTION – A

1. Answer **any seven** questions out of ten. **Each** question carries **two** marks. **(7×2=14)**

   a) State the key differences between Strategy and Plan.

   b) Define cost control.

   c) What is Kaizen Costing ?

   d) What do you mean by Zero based budgeting ?

   e) What do you mean by Cost centres ?

   f) What is value Re-engineering ?

   g) What do you mean by Bench marking ?

   h) Give the meaning of Value Analysis.

   i) What is differential cost pricing ?

   j) What do you mean by Break cost Accounting ?

SECTION – B

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

2. Write drawbacks of lean cost management.

3. ABC is truly find the exact cost of production ? Justify the statement.

4. What do you understand cost drivers ? Identify various cost drivers in textile industry.

5. Explain the different categories of the project life cycle.

6. Rakshith Ceramics Ltd. is about to replace its rapidly deteriorating boiler equipment. Three types of boiler system are being considered as a suitable replacement.

   a) Coal

   b) Gas fired and

   c) Oil fired.

   The associated cost are as follows :

(Rs. in 000's)

Boiler system	**A**	**B**	**C**
Cost of boiler (including installation and commission)	110	148	130
Annual fuel cost	54	46	50
Annual operating labor cost	16	–	–
Annual maintenance costs	8	6	6
Annual electricity costs	2	2	2
Total annual costs	**80**	**54**	**58**

The new boiler system is expected to last at least ten years. The company has opportunity cost of finance of 15% per year. Which system should be chosen ?

7. What is penetrating price ? What are the circumstances in which this policy can be adopted ?

SECTION – C

Answer **any two** questions out of four. **Each** question carries **twelve** marks. **(2×12=24)**

8. Amar Ltd. Manufactures two types of machinery equipment A and B and applies/absorbs on the basis of direct-labor hours. The budgeted overheads and direct labor hours for the month of December are Rs. 12,42,500 and 20,000 hours respectively. The information about companies' products is as follows :

Particulars	**Equipment A**	**Equipment B**
Budgeted production volume	2000 units	2625 units
Direct material cost	Rs. 250 per units	Rs. 400 per units
Direct labor cost		
Y : 3 hours @ ₹ 100 per hour		
Z : 4 hours @ ₹ 100 per hour	Rs. 400	Rs. 550

Amar Ltd. Overheads of Rs. 10,42,500 can be identified with three major activities.

Order processing (Rs. 1,60,000), machine processing (Rs. 7,75,000), and product inspection (Rs. 1,07,500). These activities are driven by number of orders processed, machine hours worked, and inspiration hours, respectively. The data relevant to these activities is as follows :

	Order processed	Machine hours worked	Inspection hours
A	300	20,000	3,000
B	200	24,000	10,000
Total	**500**	**44,000**	**13,000**

Required :

i) Assuming use of direct labor hours to absorbs/apply overheads to production, COMPUTE the unit manufacturing cost of the equipment A and B if the budgeted manufacturing volume is attained.

ii) Assuming use of activity-based costing, compute the unit of manufacturing costs of the equipment A and B if the budgeted manufacturing volume is achieved.

iii) Amar Ltd. Selling prices are based heavily on cost. By using direct labor hours as an application base. Calculate the amount of cost distortion (under-cost or over-cost) for each equipment.

9. Adani company has to replace one of its machines which has become unserviceable. Two options are available :

i) A More Expensive Machine (EM) with 6 years of life.

ii) A Less Expensive Machine (LM) with 3 years of life.

If machine LM is chosen, it will be replaced at the end of 3 years by another LM machine the pattern of maintenance running costs and prices are as under :

Particulars		EM	LM
Purchase price	(Rs.)	5,00,000	3,50,000
Scrap value at the end of life	(Rs.)	75,000	75,000
Overhauling is due at the end of		8th years	4th years
Overhauling costs	(Rs.)	1,00,000	50,000
Annual repairs	(Rs.)	50,000	70,000

Cost of capital – 14%.