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PG – 526

III Semester M.Com. Examination, December 2015
(CBCS Scheme)
COMMERCE
Paper – 3.4 AT : Strategic Cost Management – I

Time : 3 Hours Max. Marks : 70

Instruction: *Attend* ***all*** *the questions.*

SECTION – A

1. Answer **any seven** sub-questions of the following, **each** sub-question carries **two** marks : **(7×2=14)**
   a) Differentiate cost control and cost reduction.
   b) Differentiate between cost management and cost accounting.
   c) State the steps in activity based costing.
   d) State the benefits of product life cycle.
   e) State the objectives of JIT.
   f) Define Kaizan costing.
   g) What are the benchmarking codes of conduct ?
   h) What do you mean by LCC ?
   i) What do you mean by cost drivers and cost pools ?
   j) What do you mean by lean cost management ?

SECTION – B

Answer **any four** questions of the following, **each** question carries **five** marks : **(4×5=20)**

2. Define ABC. How ABC system supports corporate strategy ?
3. Briefly explain how JIT eliminates wastage of resources.
4. How is Life Cycle Costing model selected and developed ?
5. Briefly explain the steps in strategic cost management programme.
6. Bringout the main activities and cost drivers identified and implemented by J. Innes and F. Mitchell.

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7. In organic Chemical Ltd., is about to replace its old boiler equipment, either by a coal fired system or by an oil-fired system. Finance costs 15% a year, and other estimated costs are as follows :

(Rs. '000)

	Coal	Oil
Initial cost of Boiler	70	100
Annual operating costs	60 p.a	45 p.a

If the company expected the new boiler system to last at least fifteen years, which system should be chosen ? (PV of Annuity of Re. 1 at 15% for 15 years = 5.847)

SECTION – C

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

8. The Columbus Company produces only two products : a major computer part and cell phones. The company uses a normal cost system and overhead costs are currently allocated using a plant-wide overhead rate based on direct labor hours. Outside cost consultants have recommended, however, that the company use activity-based costing to charge overhead to products.

The company expects to produce 4,000 computer parts and 2,000 cell phones in 2014. Each computer part requires two direct labor hours to produce and each cell phone requires one-half hour to produce.

The direct material and direct labor costs included in the two products are as follows :

Item	Computer Part	Cell-Phone
Direct Material (per unit)	Rs. 3,000	Rs. 1,700
Direct Labor (per unit)	Rs. 1,600	Rs. 400

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Budgeted (Estimated) Total Factory Overhead Data for 2014 :

Activity	Budgeted Overhead Rs.	Estimated Volume Level
Production setups	Rs. 80,00,000	20 setups
Material Handling	Rs. 70,00,000	5,000 1bs.
Packaging and shipping	Rs. 1,20,00,000	6,000 boxes
Total Factory Overhead	Rs. 2,70,00,000	

Based on an analysis of the three overhead activities, it was estimated that the two products would require these activities as follows in 2014 :

Activity	Computer Parts	Cell Phones	Overall Totals
Production setups	5 setups	15 setups	20 setups
Material handling	1,000 1bs.	4,000 1bs.	5,000 1bs.
Packaging and shipping	4,000 boxes	2,000 boxes	6,000 boxes

Required :

a) Calculate the cost of each product using a plant-wide rate based on direct labor hours.

b) Calculate the activity cost rates for (a) setups, (b) material handling and (c) packaging and shipping.

c) Cost out the two products using an activity-based costing system.

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9. A machine used on a production line must be replaced at least every four years. The costs incurred in running the machine according to its age are :

(Rs.)

Particulars	Age of machine (Years)				
	0	1	2	3	4
Purchase price	3,000				
Maintenance		800	900	1,000	1,000
Repairs			200	400	800
Net realizable value		1,600	1,200	800	400

Future replacement will be identical machines with the same costs. Revenue is unaffected by the age of the machine. Assume there is no inflation and ignore tax. The cost of capital is 15%. Determine the optimum replacement cycle. Present value factors at 15% for years 1, 2, 3, 4 are 0.8696, 0.7561, 0.6575 and 0.5718 respectively. Present value of annuity at 15% for years 1, 2, 3 and 4 are 0.8696, 1.6257, 2.2832 and 2.8550 respectively.

10. What are the objectives of JIT approach ? Is JIT responsible for bringing changes in a firm-Explain.

11. Explain how life cost analysis is prepared, implemented and monitored.

12. What do you mean by Benchmarking ? Describe main types of benchmarking of critical success factor.