



PG – 577

III Semester M.Com. Examination, January 2017  
(CBCS)  
COMMERCE  
Paper – 3.4AT : Strategic Cost Management – I

Time : 3 Hours

Max. Marks : 70

*Instruction : Answer all the sub-sections.*

## SECTION – A

1. Answer **any seven** of the following. **Each** question carries **two** marks. (7×2=14)
- State the key difference between cost accounting and cost management.
  - Define cost drivers.
  - Why do you think product life cycle is bell-shaped ?
  - Differentiate cost control and cost reduction.
  - Define strategy.
  - What do you mean by target costing ?
  - State the phases in product life cycle.
  - What do you mean by opportunity cost ?
  - What do you mean by "Zero based budgeting" ?
  - Define lean cost management.

## SECTION – B

- Answer **any four** of the following. **Each** question carries **five** marks. (4×5=20)
- What do you understand by cost drivers ? Identify various cost drivers in textile industry.
  - "The concept of performance budgeting relates to greater management efficiency especially in government organisations" explain.

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4. Define variance analysis. What are the ways of disposing cost variances ?
5. "Money spent on installing a costing system is not an expense but an investment" comment.
6. The worker is paid Rs. 50.00 per hour and the 5 days working week contains 42 hours. The daily allowance for approved absence from his place of work, maintenance of machine, etc., is 12 minutes and his job cards show that his time chargeable during the week to various cost centers is as follows :

Job No. 305    20 hours

Job No. 310    10 hours

Job No. 320    8 hours

Time unaccounted for is caused by a power failure. Show how for the week would be dealt in the cost accounts.

7. Kurolin express is a large manufacturer of recreational equipment. Performance of the camping division is measured as an investment centre because the managers make all the decisions about investments in operating equipment and space. Following is financial information for the provision :

Average operating assets    Rs. 20,00,000

Current liabilities                Rs. 5,00,000

Operating income                Rs. 3,00,000

Camping division's required rate of return is 12%, but outdoor express's weighted average cost of capital is 9% and the tax rate is 30%.

- a) Calculate ROI
- b) Calculate the residual income
- c) Calculate Economic Value Added (EVA).



## SECTION – C

Answer **any three** of the following. **Each** question carries **twelve** marks. (3x12=36)

8. Alpha Limited has decided to analyse the profitability of its five new customers. It buys bottled water at Rs. 90 per case and sells to retail customers at a list price of Rs. 108 per case. The data pertaining to five customers are :

	Customers				
	A	B	C	D	E
Cases sold	4,680	19,688	1,36,800	71,550	8,775
List selling price	Rs. 108	Rs. 108	Rs. 108	Rs. 108	Rs. 108
Actual selling price	Rs. 108	Rs. 106.20	Rs. 99	Rs. 104.40	Rs. 97.20
Number of purchase orders	15	25	30	25	30
Number of customer visits	2	3	6	2	3
Number of deliveries	10	30	60	40	20
Kilometers travelled per delivery	20	6	5	10	30
Number of expedited deliveries	0	0	0	0	1

Its five activities and their cost drivers are :

Activity	Cost Driver Rate
Order taking	Rs. 750 per purchase order
Customer visits	Rs. 600 per customer visit
Deliveries	Rs. 5.75
Product handling	Rs. 3.75 per case sold
Expedited deliveries	Rs. 2,250 per expedited delivery

**Required :**

- Compute the customer-level operating income of each of five retail customers now being examined (A, B, C, D and E). Comment on the results.
- What insights are gained by reporting both the list selling price and the actual selling price for each customer ?
- What factors Alpha Limited should consider in deciding whether to drop one or more of five customers ?

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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 :

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 and 4 are 0.8696, 1.6257, 2.2832 and 2.8550 respectively.

10. Discuss the statement that "fixed overheads are constant within a limited range of output".
11. What do you understand by JIT ? Explain how it eliminates wastage of resources.
12. What do you understand by cost reduction ? "Cost reduction is the key for global competitiveness". Comment.
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