IV Semester M.Com. Degree Examination, June 2015
(Semester Scheme)
Commerce
A-6 : STRATEGIC COST MANAGEMENT – II

Time : 3 Hours Max. Marks : 80

***Instruction** : Answer **all** the Sections.*

SECTION – A

Answer **any ten** of the following sub-questions. **Each** sub-question carries **two** marks. **(10×2=20)**

1. a) What is target rate of return pricing ?

   b) What do you understand by transfer of pricing ?

   c) Distinguish between marginal cost and incremental cost.

   d) What is opportunity cost principle ?

   e) List out the advantages of added value method of pricing.

   f) What are the essential ingredients of TQM ?

   g) What do you mean by differential retention pricing ?

   h) Define Balanced Scorecard.

   i) What is meant by prevention cost in cost of quality ?

   j) State sealedbid pricing as a competition – oriented pricing method.

   k) Outline the steps involved in full cost pricing.

   l) List out the advantages of strategic cost management.

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SECTION – B

Answer **any three** questions. **Each** question carries **five** marks. **(3×5=15)**

2. Explain the objectives of pricing policy.
3. What are the benefits and limitations of transfer pricing ?
4. What are the attributes to good performance measurement system ?
5. The following information for the year 2014 relates to a mechanical Toy factory.

	Rs.
Material Cost	1,20,000
Labour Cost	2,40,000
Fixed overheads	1,20,000
Variable overheads	60,000

Units produced 12,000 Selling price per unit Rs. 50. Total capacity 20,000 units. The firm has an offer for the purchase of 5,000 units at a price of Rs. 40 per unit. If the offer is accepted, it would lead to

i) a saving of Rs. 1 per unit in material cost on all manufactured
ii) an increase in overhead by Rs. 35,000 and
iii) a drop in overall efficiency by 2 % on the entire production. Would you advise acceptance of the offer ?

6. Quantity Products Ltd. manufactures and markets a single product. The following data are available :

	Per Unit Rs.
Materials	16
Conversion Cost (variable)	12
Dealer's margin (10 % of sale)	4
Selling price	40
Fixed Cost	Rs. 5 lakhs
Present sales	90,000 units
Capacity utilisation	60 %

There is stiff competition. Extra efforts are necessary to sell. Suggestions have been made for increasing sales.

a) By reducing sales price by 5 %
b) By increasing dealer's margin by 25 % of the existing rate.

Which of the two suggestions you would recommend of the company desires to maintain the present profit ? Give appropriate reasons.

SECTION – C

Answer **any three** questions. **Each** question carries **15** marks. **(3×15=45)**

7. Discuss briefly different pricing strategies and also explain the appropriate strategies for new products.

8. Describe the important provisions with regard to transfer pricing of international transactions in India.

9. Explain how does Balanced scorecard help in overcoming the drawbacks of traditional financial measures.

10. A company has two divisions. The output of Division A is Product ASS. There is a market outside the company for Product ASS, but this product is mainly used by Division B. Which has first call on Division A's output. The output of Division B Product BEE is sold in the external market. The Product ASS has the following cost structure

    Variable Cost per unit = Rs. 7

    Fixed Cost per unit = Rs. 3

    Management has decided a target rate of return of 12 percent for each division. The cost structure of Product BEE is given below :

    Transfer price own variable cost per unit = Rs. 15

    Fixed cost per unit = Rs. 7

    Market price per unit = Rs. 28

    You are required to determine :

    1) Transfer price of Product ASS per unit under

       i) Variable cost method, and

       ii) Cost plus

    2) Selling price of Product BEE.

11. The XYZ company manufactures a Product which costs :

    Fixed (per month) Rs. 1,000

    Variable (per unit) 10 paise

    Sales are at present 10,000 units per month at 30 paise per unit.

    a) A proposal to extend the sales to a foreign market has come where demand for an additional 5,000 units per month is expected. However, to do this it will be necessary to absorb additional shipping costs and duties amounting to 12 paise per unit. Will be foreign business be profitable ?

    b) A domestic chain store has offered to take 5,000 units per month at 18 paise per unit. Should this order be accepted in place of the foreign order ?

    c) The sales department proposes to reduce the selling price of the product to increase sales. The following estimates of the sales volume at various prices are made.

       30 p. per unit (the present price) Rs. 10,000 pm

       25 p. per unit (the present price) Rs. 14,000 pm

       20 p. per unit (the present price) Rs. 19,000 pm

       Assuming that the above estimates are correct, should you reduce the price ? If so, to what level ?