PG – 509

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.

P.T.O.

ICWA-SCM Notes

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.

T.B.

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 ?

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IV Semester M.Com. (CBCS) Examination, July - 2019

COMMERCE

AT – 4.3 : Strategic Cost Management - II

Time : 3 Hours

Max. Marks : 70

SECTION - A

Answer **any seven** of the following sub-questions. Each sub-question carries **two** marks. **7x2=14**

1. (a) What do you mean by Product Pricing Policy ?
   (b) What is target rate of return pricing ?
   (c) State any two objectives of transfer pricing.
   (d) What are cost of lost opportunities ?
   (e) What is differential retention pricing ?
   (f) Give the meaning of TQM.
   (g) State the types of Benchmarking.
   (h) What are the phases of learning curve ?
   (i) List out the advantages of strategic cost management.
   (j) State the meaning customer perspective in Balanced Score Card.

SECTION - B

Answer **any four** of the following questions. Each question carries **five** marks. **4x5=20**

2. Explain the role of Management Accountant in product pricing.

3. Discuss "the learning curve will pass through three different phases".

4. What are the benefits and limitations of transfer pricing ?

5. Briefly explain the impact of Benchmarking in Indian industry.

P.T.O.

6. ABC Ltd. budgets to manufacture 50000 units of product X. The variable cost per unit is ₹ 10. Fixed cost are ₹ 3,00,000. The Finance Manager has suggested that the cost plus approach should be used with a profit mark-up of 25%. However, the Marketing Manager disagreed and has supplied the following information :

Price per unit (₹)	Demand (Units)
09	42000
10	38000
11	35000
12	32000
13	27000

As a Management Accountant of the Company, you are required to analyse the above proposal and comment.

7. A Company wants to manufacture a new product against order, the initial trails showed that the first unit would take 10 hours at ₹ 15 per hour and that the operations would be subject to a learning curve of 80%. The cost of materials per unit is ₹ 200 and overheads amount to 150% of labour cost. The first order received is for 8 units of the product.

What price should the firm quote to get a margin of 20% on sales ?

SECTION - C

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

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

9. Briefly explain the applications of learning curve and explain the Managerial Considerations in the use of Learning Curves.

10. Discuss the issue involved in transfer pricing.

11. Arjun of Delhi presently operates his plant at 80% of the normal capacity to manufacture a product only to meet the demand of Government of Tamil Nadu under a rate contact.

He supplies the product for ₹ 4,00,000 and earns a profit margin of 20% on sales realizations. Direct cost per units is constant.

The indirect costs as per his budget projection are :

Indirect cost	20,000 units (80% capacity)	22500 units (90% capacity)	25000 units (100% capacity)
Variable	80000	90000	100000
Semi-variable	40000	42500	45000
Fixed	80000	80000	80000

2,00,000.

He has received an export order for the product equal to 20% of its present operations. Additional packing charges on this order will be ₹ 1,000.

Arrive at the price to be quoted for the export order to give him a profit margin of 10% on the export price.

12. Godrej Company is organized into two divisions namely A and B produces three products, X, Y and Z. The following are the data per unit :

Particulars	X	Y	Z
Market Price (₹)	120	115	100
Variable Cost (₹)	84	60	70
Direct Labour Hours	4	5	3
Maximum Sales Potential (Units)	1600	1000	600

Book T.P.

Division B has demand for 600 units of products Y for its use. If Division A cannot supply the requirement, Division B can buy a similar product from market at ₹ 112 per unit.

What should be the transfer price of 600 units of Y Division B, if the total direct labour hour available in Division A are restricted to 15,000 ?

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IV Semester M.Com. Examination, September/October 2020
(CBCS)
COMMERCE
AT-4.3 : Strategic Cost Management – II

Time : 3 Hours Max. Marks : 70

SECTION – A

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

1. a) What is meant by Arms Length Pricing (ALP) ?
   b) Name any two perspectives of quality costs.
   c) What is marginal cost pricing ?
   d) What is the basic idea behind the development of Learning Curve Theory ?
   e) Define TQM.
   f) Give the meaning for Cost Of Quality (COQ) and Cost Of Prevention (COP).
   g) What do you mean by Benching marking ?
   h) What is meant by experience curve ?
   i) What do you mean by Financial perspective in balanced score cards ?
   j) What is out-of-pocket cost ?

SECTION – B

Answer any **four** of the following. **Each** question carries **five** marks. **(4×5=20)**

2. Explain the factors involved in pricing policy.
3. What is meant by Learning Curve ? Briefly explain the different phases/steps of Learning Curve.
4. M/s Pratheek Ltd. wants to manufacture a new product against the order. The initials trails showed that the first unit would take 10 hrs @ Rs. 15 per hour and that the operations would be subject to the learning curve 80%. The Cost of materials per unit is Rs. 200 and other overheads are 150% of labour cost. The first order is received for eight (8) units of the product. What price should the firm quote to get margin of 20% on sales ?

P.T.O.

5. Adwiteeya Co. fixes the inter-divisional transfer prices for its product on the basis of cost plus a return on investment in division. The budget for Division A for 2018-19 is as under :

Fixed Assets	Rs. 2,50,000
Current Assets	Rs. 1,50,000
Debtors	Rs. 1,00,000
Annual fixed cost of the division	Rs. 4,00,000
Variable Cost per unit of product	Rs. 10
Budgeted volume	2,00,000 units per year
Desired ROI	28%

Determine the transfer price for Division A. If the volume (in units) can be increased by 10%, what will be the impact on transfer price ?

6. Mention 8 principles of TQM.

7. Briefly explain the impact of Benchmarking on Indian Industry.

SECTION – C

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

8. Explain the factors affecting learning curve and discuss the managerial considerations in the use of learning curves.

9. Briefly explain the Strategic Benchmarking and steps involved in strategic benchmarking.

10. A company manufactures two types of herbal products : Vidi and Nidi. Its budget shows profit figures after apportioning the joint fixed cost of Rs. 15 lakhs in the proportion of the numbers of units sold. The budget for 2018 indicates :

Particulars	**Vidi**	**Nidi**
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 variable cost would be increased by 7.5%. You are required to advice the company, if it expects that the number of units to be sold would be equal.

11. M/s Chaturvedi 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)
2000	20,000
1000	30,000
900	40,000
800	50,000
700	60,000
600	70,000

The costs of each division are as follows :

Particulars	Foam	Star
Variable cost per unit (Rs.)	120	90
Fixed cost (Rs.)	70,00,000	1,00,00,000

The transfer price is Rs. 550 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) What is Marginal Cost Pricing ? What are the Pros and Cons of Marginal Costing ?

B) What is Penetrating Pricing ? Explain the role of Management Accountant in product pricing.

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IV Semester M.Com. Degree Examination, October- 2023

COMMERCE

Strategic Cost Management - II

(CBCS Scheme)

Paper : 4.4

Time : 3 Hours **Maximum Marks : 70**

SECTION-A

Answer any Seven of the following Sub questions. Each sub question carries Two marks. **(7×2=14)**

1. a) State the two features of prevention cost.
   b) Define Balance Scorecard?
   c) Give the meaning of opportunity cost pricing.
   d) State 3 benefits of transfer pricing policy.
   e) What is Appraisal Costs?
   f) What do mean by Benchmarking?
   g) Mention any three drawbacks of traditional financial measures.
   h) State the meaning of "PRAISE".
   i) Give the meaning of Learning Curve.
   j) State sealed bid pricing as a competition - oriented pricing method.

SECTION - B

Answer any Four of the following questions. Each question carries Five marks: **(4×5=20)**

2. What do you mean by Benchmarking? What are prerequisites of Benchmarking?
3. "The learning curve will pass through three different phases". Discuss.
4. What do you mean by philosophy of continuous process improvement? What are its challenges?
5. Perfect pistons ltd., produces 60,000 pistons per annum for its parent company perfect motors ltd. The pistons are sold to perfect motors at Rs. 200 per unit. The variable cost per piston is Rs. 180. The annual fixed cost of perfect pistons ltd. Is Rs 15 lakhs and it is currently operating at 60% capacity.

   The company desires to respond to an export enquiry for 30,000 pistons of the type it is currently manufacturing. The company's aim to improve capacity utilization and avoid loss.

   You have to take note of the following benefits that will accrue to the export transaction, while determining the F.O.B price to be quoted:

a) Export incentive by way of cash assistance at 10% of F.O.B value of exports.

b) Reimbursements of excise duty on manufacturing inputs by way of 5% drawback of duty on F.O.B value of exports.

c) Entitlement of import license to the extent of 10% on F.O.B value of exports. The import license can either be sold be a premium of 100% or it can be utilised to import certain auto components that will yield a 30% profit on cost Recommend the bare minimum price that the company should quote, in order to break- even assuming:

   i) It sells the import license in the market

   ii) It imports components against the license and sells them for profit.

6. A firm has received an order to make and supply eight (8) units of standard product which involves intricate labour operations. The first unit was made in 10 hours. It is understood that this type of operations is subject to 80% learning effect. The workers are getting a wages rate of Rs. 12 per hour:

What is the total time and labour cost required to execute the above order? If a repeat order of 24 units is also received from the same customer, what is the labour cost necessary for the second order?

7. A company has two divisions, Division A' and Division 'B'. Division 'A' has a budget of selling 2,00,000 nos. Of a particular component x' to fetch a return of 20% on the average assets employed. The following particulars of Division 'A' are also known:

Fixed Overhead	Rs. 5 lakhs
Variable cost	Re. 1 per unit
Average Assets	
Sundry Debtors	Rs. 2 lakhs
Inventories	Rs. 5 lakhs
Plant and Equipment's	Rs. 5 lakhs

However, there is constraint in marketing and only 1,50,000 units of the component 'x' can be directly sold to the market at the proposed price.

It has been gathered that the balanced 50,000 units of component 'x' can be taken up by Division 'B'. Division 'A' wants a price of Rs. 4 per unit of 'x' but Division 'B' is prepared to pay Rs. 2 per unit of 'x'.

Division 'A' has another option in hand, which is to produce only 1,50,000 units of component x'. This will reduce the holding of assets by Rs. 2 lakhs and fixed over-head by Rs. 25,000.

You are required to advise the most profitable course of action for Division 'A'.

SECTION - C

Answer any Two of the following questions. Each question carries Twelve marks:

(2×12=24)

8. "The essential requirements for successful implementation are described as the six C's of TQM" - Explain.

9. State the main types of information which will be required by a manager to implement the balanced scorecard approach to performance measurement.

10. Poshith furnishers Ltd., manufactures one type of sofa set exclusively. The set contains the following seven components:

One sofa, two centre tables and four chairs.

These components can be either manufactured by the company or sub-contracted and the following is the relevant data.

Particulars	Sofa	Table	Chair
Direct Material Cost per Component (Rs.)	1,000	500	550
Direct Labour hrs. Per component (Hrs.)	100	50	10
Sub-Contract price per component (Rs.)	2,500	1,000	750

Sales of Sofa sets are currently 8,000 per period, each set selling per Rs. 7,500. A capacity constraint of 5,00,000 direct labour hours obliges the company to sub-contract some components.

The variable overheads vary with direct labour hours worked and are incurred at a rate of Rs. 2 per hour. Fixed costs are Rs. 17,50,000 per period and labour costs Rs. 5.50 per hour.

Advice

a) Which components and how many should be manufactured by the company?

b) What is the maximum profit that could be earned at current sales? If sales were unlimited?

c) If the selling price has to be reduced to Rs. 6,950 per sofa set, what is the maximum profit that the company can obtain?

11. The two manufacturing divisions of a company is organized on profit centre basis. Division X is the only source of a component required by Division Y for their product 'P'. Each unit of P requires one unit of the said component. As the demand of the product is not steady, orders for increased quantities can be obtained by manipulating prices. The manager of Division Y has given the following forecast:

Sales per day (units)	Average price per unit of P(Rs.)
5000	393.75
10,000	298.50
15,000	247.50
20,000	208.50
25,000	180.00
30,000	150.75

The manufacturing cost (excluding the cost of the component from Division X) of P in Division Y is Rs. 14,06,250 on first 5,000 units and Rs. 56.25 per unit in excess of 5,000 units.

Division X incurs a total cost of Rs. 5,62,500 per day for an output up to 5,000 components and the total costs will increase by Rs .3,37,500 per day for every additional 5,000 components manufactured. The manager of Division X has set the transfer price for the component at Rs. 90 per unit to optimize the performance of his division.

Required:

a) Prepare a divisional profitability statement at each level of output, for divisions X and Y separately;

b) Find out the profitability of the company as a whole at the output level where:
   i) Division X's net profit is maximum:
   ii) Division Y's net profit is maximum.

c) Find out at what level of output, the company will earn maximum profit, if the company is not organization profit centre basis.

SECTION-D

(Compulsory Skill based question)

12. A company with two production departments has set the following standards for the forthcoming year: **(1×12=12)**

Particulars	**Departments** S	W
Direct Labour hours available per period	6000	4000
Standard wage rate per hour	Rs. 6	Rs. 5
Expected learning curve	80%	70%
Standard variable overheads per hour	Rs. 9	Rs. 5
Standard fixed overhead per hour	Rs.12	Rs.8
Direct labour hours required for first 100 units	18	9

The direct materials are introduced in Department S. The company is able to negotiate the following prices for purchase of direct materials during the year.

Level of output (units)	**Price of direct materials per (unit of output)**
100	Rs. 72.00
200	Rs. 64.80
800	Rs. 54.00

Overtime, if required is paid at time and a half The overhead rates as given above does not include overtime premium. It is the policy of the company to add profit margin as under in quoting the prices:

Department	Percentage on total labour and overhead cost
S	25%
W	155
Sub-contracted work	5% on sub-contract price

The company has received a special order. Special tooling costs of the order amount to Rs. 1,200. If this order is for 200 units or less, it will be executed in the period which has a workload of 3,840 direct labours in Departments W. For the work which is done in Department W, a subcontract price of Rs, 50 per unit is quoted by an associate company.

Required:

If the company decides to get the work executed within the company, what price, on cost plus basis should be quoted for the order, if it consists of.

100 units

200 units

Assuming that the initial order placed by the customer is 200 units, what lowest prices should be quoted for a repeat order of 600 units? Assume that this order will be executed when there are no capacity constraints.

State the output level at which the company should close down department W to get the work executed through sub-contractors.