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B.M.S COLLEGE FOR WOMEN
BENGALURU – 560004

III SEMESTER END EXAMINATION –APRIL - 2024

M.Com. - STRATEGIC COST MANAGEMENT -I
(CBCS Scheme – F+R)

Course Code: MCM304T **QP Code: 13012**
Duration: 3 Hours **Max. Marks: 70**

SECTION – A

1. **Answer any Seven Questions out of Ten. Each Question Carries Two Marks. (7x2=14)**

a) Define Strategic cost Management?
b) What are Cost Control and Cost Reduction?
c) State the disadvantages of traditional method of overhead absorption
d) Give the Meaning of Business Process Re-engineering?
e) State the Different phases of Product Life Cycle Costing?
f) Define Kaizen Costing?
g) What is JIT?
h) What do you mean by Lean Cost Management?
i) What do you mean by Cost Drivers?
j) What is Benchmarking?

SECTION – B

Answer any Four Questions out of Six. Each Question Carries Five Marks. (4x5=20)

2. Discuss the benefits of lean cost management?
3. A Company has to replace one of its machines, there are 2 options are available
Option 1: A more expensive machine with a 12 year of life
Option 2: A Less expensive machine with 6 years of life
If less expensive machine is chosen it will be replaced at the end of 6 years by another less expensive machine. The pattern of maintenance, running cost & Prices are under

Particulars	Expensive Machine	Less Expensive Machine
Purchase Price	₹10,00,000	₹7,00,000
Scrap value at the end of life	₹1,50,000	₹1,50,000
Over hauling at the end	8th year	4th year
Over hauling cost	₹2,00,000	₹1,00,000
Annual repair cost	₹ 1,00,000	₹ 1,40,000
Cost of capital	14%	14%

You are required to recommend with supporting calculations, which of the machine should be purchased?
PV of ₹ 1 at the end of 4th year -0.5921, 6th year -0.4556, 8th year -0.3506, 12th year -0.2076
Year 1-6 years – 3.8890, 1-12 years -5.6600

4. From the following calculate cost drivers' rates.

Activity	**Total Cost (Rs)**	**Cost Allocation Base**
Setting up	15,000	No of set ups-100
Purchase of materials	20,000	No of purchase order-50
Customer visits	40,000	No of customer visits-40
Deliveries	50,000	Km, travelled by delivery vehicles-800
Customer support	80,000	No of items sold-10,000
Customer purchases order processing	90,000	No of orders processed-4500
Shelf stocking on store shelves	80,000	No of hours of shelf stocking time-800

5. Explain the types of benchmarking
6. Enumerate the benefits in adapting JIT in manufacturing sector?
7. Bring out the procedure for Implementation of Kaizen Costing?

SECTION – C

Answer any Two Questions out of Four. Each Question Carries Twelve Marks. (2x12=24)

8. Relevant data relating to a company are:

Particulars	**Products**			
	P	**Q**	**R**	**Total**
Production and sales (units)	60,000	40,000	16,000	
Raw material usage in units	10	10	22	
Raw materials costs	₹50	₹40	₹22	2476000
Direct Labour hours	2.5	4	2	342000
Machine hours	2.5	2	4	294000
Direct labour costs	₹16	₹24	₹12	
No of production runs	6	14	40	60
No of Deliveries	18	6	40	64
No of receipts	60	140	880	1080

No of production order	30	20	50	100

Overheads:

Set-up	60,000
Machines	15,20.000
Receiving	8,70,000
Packing	5,00,000
Engineering	7,46,000

The company operates a JIT inventory policy and receives each component once per production run.

Required:

a. Compute the product cost based on direct labour hour recovery rate of overheads
b. Compute the product costs using Activity Based costing.

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:

₹

	Age of the machinery (in years)				
Particulars	**0**	**1**	**2**	**3**	**4**
Purchase price	3000	-	-	-	-
Maintenance	-	800	900	1000	1000
Repairs	-	-	200	400	800
Net realisable value	-	1600	1200	800	400

Future replacement will be identical machines with the same costs. Revenue is unaffected by the age of the machine. The cost of capital is 155. Determine 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 1,2,3,4 are 0.8696, 1.6257, 2.2832 and 2.8550 respectively.

10. Explain the benefits and problems of adoption of ABC system compared to Traditional System?
11. What do you understand JIT? Explain How it eliminates Wastage of Resources?

SECTION – D
(Compulsory Skill-based Question on Subject / Paper) (1x12=12)

12. Bombay steel limited manufactures 4 products namely A,B,C,D using the same plant and a production period

Product	Volume	Material Cost Per Unit (₹)	Direct Labour Per Unit	Machine Time Per Unit	Labour Cost Per Unit (₹)
A	500	5	½ hour	¼ hour	3
B	5000	5	½ hour	¼ hour	3
C	600	16	2 hours	1 hour	12
D	7000	17	1 ½ hour	1 ½ hour	9

Total production overhead recovered by the cost accounting system is analyzed under the following headings

Activities	Amount (₹)
Factory overhead applicable to machine-oriented activity	37424
Set up cost	4355
Cost of ordering material	1920
Handling material	7580
Administration for spare parts	8600

These overhead costs are observed by product on a machine hour rate of ₹4.80/hr. giving on overhead cost product A = ₹ 1.20, product B =₹ 1.20, product C = ₹ 4.80, product D = ₹ 7.20. However, investigation into the production overhead activity for the period reveals the following totals.

Product	No. of setup	No. of material order	No. of time material was handled	No. of Spare parts
A	1	1	2	2
B	6	4	10	5
C	2	1	3	1
D	8	4	12	4

You are required to:

1) Compute an overhead cost per product using activity-based costing, tracing overheads to production by means of cost drivers
2) To Comment briefly on the differences between overheads traced by present system and traced by activity-based costing