Q.P. Code : 60574

Third Semester M.Com. Degree Examination,
January/February 2020

(CBCS – Semester Scheme)

Commerce

Paper 3.4 AT – STRATEGIC COST MANAGEMENT – I

Time : 3 Hours] *[Max. Marks : 70*

*Instructions to Candidates : Answers **ALL** the questions.*

SECTION – A

1. Answer any **SEVEN** of the following sub-questions. Each sub-question carries **2** marks : **(7 × 2 = 14)**

   (a) Give the meaning of cost management.

   (b) State any four limitations of traditional costing system.

   (c) What are cost control and cost reduction?

   (d) Give the meaning of business process re-engineering.

   (e) State the different phases of product life cycle costing.

   (f) What is kaizen costing?

   (g) Mention the benefits of product life cycle costing.

   (h) What do you mean by target costing?

   (i) What is JIT?

   (j) What do you mean by lean cost management?

SECTION – B

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

2. Explain the strategic management issues in different elements of cost.

3. Briefly explain the steps in strategic cost management programme.

4. What is ABC? How does ABC system supports corporate strategic planning?

5. What do you understand by cost reduction? How cost reduction is the key for global competitiveness?

6. Explain the different categories of project life cycle costing.

7. Inorganic Chemicals 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 questions. Each question carries **12** marks : **(3 × 12 = 36)**

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

9. What are the objectives of JIT approach? Explain how JIT responsible for bringing changes in industry?

10. Discuss the performance measures under JIT approach.

11. The following are the data relating to Godrej Company :

Particulars	P	Q	R	Total
Production and Sales (units)	60000	40000	16000	
Raw material usage in units	10	10	22	
Raw material cost	Rs. 50	Rs. 40	Rs. 22	2276000
Direct labour hours	2.5	4	2	342000
Machine hours	2.5	2	4	294000
Direct labour costs	Rs. 16	Rs. 24	Rs. 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 orders	30	20	50	100

Overheads :

Set up	60000
Machines	1520000
Receiving	870000
Packing	500000
Engineering	746000

The Company operates a Just In Time inventory policy and received each Component once per production run.

Compute :

(a) the product cost based on direct labour hour recovery rate of overheads

(b) the product cost using ABC

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

	Age of machine (years)				
	0	1	2	3	4
Particulars	60000				
Maintenance		16000	18000	20000	20000
Repairs			4000	8000	16000
Net realizable value		32000	24000	16000	8000

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, 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.
