



PD – 116

**II Year M.Com. (DCC) Examination, January 2018
(2007-08 Scheme)
COMMERCE
AT 2.5 : Cost Management**

Time : 3 Hours

Max. Marks : 100

Instruction : Answer *all* Sections.

SECTION – A

Answer **any eight** of the following sub-questions in about **4** lines **each**. **Each** question carries **2** marks. **(8×2=16)**

1. a) Enlist any two tools of Cost Management.
- b) Differentiate between value analysis and value engineering.
- c) List out any two benefits of ABC.
- d) Mention the factors influencing pricing of a product.
- e) Define JIT.
- f) What do you mean by TQM ?
- g) What is business process re-engineering ?
- h) What is cost based transfer pricing ?
- i) Give the meaning of product life cycle.
- j) List any two pricing approaches.
- k) What is opportunity cost ?

SECTION – B

Answer **any 3** questions. **Each** carries **8** marks. Answer to **theory** questions should **not** exceed **one** page. **(3×8=24)**

2. Mukesh presently operates his plant at 80% of the normal capacity to manufacture a product only to meet the demand of Govt. of Karnataka under rate contract. He supplies the product for ₹ 600,000 and earns a profit margin of 20% on sales realisations. Direct cost per unit is constant. The indirect cost as per his budget projection are :

P.T.O.



Indirect cost	10,000 units (80% Capacity) ₹	12,500 units (90% Capacity) ₹	15,000 units (100% Capacity) ₹
* Variable	80,000	90,000	100,000
* Semi variable	30,000	32,500	35,000
* Fixed	10,000	10,000	10,000

He has received an export order for the product equal to 20% of its present operation. Additional packing charges on his 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.

3. ABC Company Ltd., expects to earn added value of ₹ 400,000 in 2016. It expects a value added/labour cost ratio of [i. e. value added should be double as much as the expected labour cost of ₹ 65,000]. The labour cost are ₹ 200,000 but actual added value earned in 2016 amounts to ₹ 40,000. Bonus is paid based on below (a) or (b) whichever is favourable to employees.
- 50% of any excess value added earned will be paid as bonus.
 - Labour cost should be half of the added value achieved and 50% of saving on the amount would be paid as bonus.

Calculate the bonus amount.

4. Kelvin manufacturing company has five Account Clerks responsible for processing purchase invoices. Each clerk is able to process 6000 invoices per year and is paid a salary of ₹ 450,000 p.a. with the salary, the company spends ₹ 65,000 per year for postage etc. [Assuming that 16,000 invoices are processed) during the year, 15,000 invoices were processed]. You are required to
- Calculate the activity rate for the purchase order activity and fixed and variable activity rate.
 - Calculate the used and unused activity in total activity availability.
 - Compute the total cost of supplied resources and divide this into activity usage and unused activity.
5. What is JIT ? Discuss the limitations of JIT.
6. Explain the steps in implementation of ABC.



SECTION – C

Answer **any four** questions. **Each** question carries **15** marks. Answer to the theory question should **not** exceed **3** pages **each** : **(4×15=60)**

7. A company is considering a cost saving project. This involves purchasing a machine costing ₹ 10,000, which will result in annual saving in wage costs of ₹ 2,000 and in material costs of ₹ 500.

The cost of capital of the company, in monetary terms is 15%.

The following forecasts are made of the rates of inflation each year for the next 5 year.

Wages costs	10%
Material costs	4%
General prices	6%

Evaluate the project, assuming that the machine has a life of 5 years and no scrap value.

8. XYZ company Ltd., having 2 divisions namely 'C' and 'D' sells $\frac{1}{3}$ of its output in the open market and transfers the rest of output to division 'D'. Costs and revenue during 2016 are as below :

Particulars	C ₹	D ₹	Total ₹
Sales	9,000	27,000	36,000
Cost of production in division	10,000	12,000	20,000
Profit during the period	–	–	6,000

There is no opening or closing stocks. Calculate the profit of each division and the profit of the company using transfer price :

- a) At cost plus a margin of 25% and
- b) At market price.



9. Rubel manufacturing company purchases one of the components required for the manufacturing product from two sources viz, supplier X and supplier Y. The price quoted by supplier X is ₹ 25.00 per hundred numbers of the components and it is found that an average 3% of the total receipt from this source is defective. The corresponding quotation from supplier Y is ₹ 24.50 but the defects would go upto 5% for the total supply. If the defectives are not detected, they are utilised in production causing a damage of ₹ 25.00 per hundred components on completion. The company intends to introduce a system of inspection for the components on receipt, which would cost ₹ 2.00 per hundred components. Such as inspection will, however be able to detect only 90% of the defective components received, no payment will be made for components found to be defective in inspection.

Discuss your opinion :

- a) Whether inspection at the point of receipt is justified.
- b) Which of the 2 suppliers should be asked to supply ?

Assume total requirements of components to be 10,000 numbers.

10. "Technological advancement in cost management system." Discuss the impact on pricing decisions.
 11. Briefly discuss the tools used in ABC.
 12. What is TQM ? Enumerate its merits in Cost Management system.
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