Q.P. Code : 60588

Fourth Semester M.Com. Degree Examination, September/October 2020

(CBCS Scheme – 2014-15)

Commerce

Paper 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** to **4** lines). Each sub-question carries **2** marks : **(7 × 2 = 14)**

   (a) Mention any two objectives of transfer pricing.

   (b) What do you mean by Benchmarking?

   (c) What are the phases of learning curve?

   (d) Outline the steps involved in full cost pricing?

   (e) List out the advantages of strategic cost management.

   (f) Define TQM.

   (g) What do you mean by customer perspective in Balanced Score Card?

   (h) State any four features of Marginal costing.

   (i) What is Experience Curve?

   (j) What are cost of lost opportunities?

SECTION – B

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

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

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

4. "The learning curve will pass through three different phases". Discuss.

5. ABC Co fixed the inter-divisional transfer prices for its product on the basis of cost plus a return on investment in division. The budgets for the Division A for 2019-20 is as follows :

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 the product	Rs. 10
Budgeted volume 2,00,000 units per year	
Desired ROI 28%	

Determine the transfer price for Division A.

6. A company wants to manufacture a new product against order. The initial trails showed that the first unit would take 10 hours @ Rs. 15 per hour and that the operations would be subjected to a learning curve of 80%. The cost of materials per unit is Rs. 200 and overheads amount to 150% of labour cost.

   The first order received is for eight units of the product. What price should that firm quote to get a margin of 20% on sales?

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

SECTION – C

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

8. Discuss the issue involved in transfer pricing.

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

10. "Balance score card are necessary for today's business executives to be able to plan, execute and achieve their business strategies". Discuss.

11. Vinayak Ltd. has two manufacturing divisions, AD and CD. Each division operates as an independent profit centre.

    AD which produces two components BRITE and LITE has a capacity of 1,00,000 hours per annum. The annual fixed overheads of this department amounts to Rs. 20,00,000. The product wise variable cost data are as under :

Particulars	BRITE	LITE
Direct materials	10	5
Direct labour and variable overheads	140	35
Total	150	40

The direct labour and variable overhead rate is Rs. 35 per hour.

AD has a permanent customer for the purchase of 15,000 units of BRITE per annum at a selling price of Rs. 30 per unit. The balance capacity is devoted to the production of LITE for which there is an unlimited sales potential at Rs. 60 per unit.

CD assembles a product known TITE by using an imported component. The annual fixed overheads of this division amount to Rs. 4 lakhs and the variable cost data per unit are as under :

	TITE Rs/unit
Imported component	300
Direct materials	40
Direct labour and variable overheads (10 hours @ Rs. 25)	250
Total	590

The selling price of TITE is Rs. 700 per unit.

With a view to minimizing the dependence on imported components, the possibility of using the company's own component BRITE, which is similar to the imported component, was explored. The import substitution is possible with sligh modification in the manufacture of TITE which in that case will take extra 2 labour hours per unit. This means an increase of Rs. 50 in variable costs per unit of TITE. CD envisages a production of 5,000 units per annum of TITE.

You are required to present the divisionwise profitability and the profitability of the company as a whole on the basis of the following conditions :

(a) CD imports its requirement of 5,000 components for the manufacture of TITE.

(b) CD stops import and substitutes BRITE by drawing 5,000 units of BRITE from AD at the market price of Rs. 300 per unit.

(c) Same situation as in (b) above except that CD gets a relief of Rs. 50 per unit (net transfer price to CD is Rs. 250 per unit) of BRITE to compensate the increased labour and variable overhead cost of CD.

(d) CD revises its production programme to manufacture 12,000 units of TITE by drawing 10,000 units of BRITE from AD at Rs. 250 per unit and imports the balance of 2,000 units of components at Rs. 300 per unit. Due to installation of additional production capacity, the annual fixed overhead of CD would increase by Rs. 7,70,000. In order to induce CD to the expansion programme. Do you think a negotiated transfer price of Rs. 240 for BRITE would be agreed by AD?

Give reasons and also comment on the best alternative among above four for the company as a whole.

12. Goodluck Ltd. makes a product, which has the standard marginal cost, as below :

Direct materials	50.00
Direct wages	37.50
Variable production overhead	6.25
Total	93.75

The annual budget, further, indicates output in units 80,000

Fixed overhead :

Production	50,00,000
Administration	30,00,000
Marketing	25,00,000

Contribution 1,25,00,000

The company's management desires much better results than projected and wants the following proposals for improved performance to be considered :

(a) Reduce the selling price by 10%, with a prospect of production and sale increasing by 25%. The fixed production overhead will increase by Rs. 2,50,000 and fixed marketing overhead by Rs. 1,25,000.

(b) Increase the selling price by 10%, and increase advertising expenditure from the present outlay of Rs. 5,00,000 to 25,00,000. Sales will go up to 90,000 units. Fixed production overhead will be up by Rs. 1,25,000 and marketing overhead by Rs. 1,00,000.

(c) A profit of Rs. 30,00,000 is desired. A 10% increase in sales can be achieved by increasing advertisement expenditure by Rs. 18,00,000. The fixed production overhead will go up by Rs. 1,25,000 and marketing overhead by Rs. 85,000. What is the selling price required for achieving the desired profit?

(d) A departmental stores is willing to take 20,000 units per annum at a special discount. Existing sales will not be affected. Fixed production overhead will increase by Rs. 2,50,000 per annum. What is the special discount to be offered if by accepting the contract, the company's profit is to go up to Rs. 33,75,000 per annum.

Compile the forecast profit and loss statement pertaining to the above proposals and comment on the outcome of each proposals.