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Name.....

Reg No.....

**FOURTH SEMESTER M.Com. DEGREE EXAMINATION, MARCH 2017**

(CUCSS - PG)

**CC15P MC4 C15 - COST MANAGEMENT**

(2015 Admission)

Time : Three Hours

Maximum : 36 Weightage

**Part A**

(Answer *all* questions)

Each question carries a weightage of 1

1. What is strategic cost management?
2. Differentiate cost driver and cost pool.
3. Define target costing.
4. What do you mean by Business Process Reengineering?
5. What is equivalent production?
6. Write a short note on role of life cycle costing in cost control.

(1 x 6= 6 weightage)

**Part B**

(Answer any *six* questions)

Each question carries a weightage of 3

7. Explain the components of Activity Based Costing.
8. What is Kaizen costing and explain its procedures.
9. What is Just In Time and describe its benefits.
10. Explain the concept of inter process and illustrate its accounting treatment.
11. Global Transport Ltd. charges Rs.90 per ton for its 6-tons truck lorry load from city 'A' to city 'B'. The charges for the return journey are Rs.84 per ton. No concession or reduction in these rates is made for any delivery of goods at intermediate station 'C'. In January 2012, the truck made 12 outward journeys for city 'B' with full load out of which 2 tons were unloaded twice in the way at city 'C'. The truck carried a load of 8 tons in its return journey for 5 times but was once caught by police and Rs. 1,200 was paid as fine. For the remaining trips the truck carried full load out of which all the goods on load were unloaded once at city 'C', but it returned without any load once only from 'C' station to 'A' station. The distance from city 'A' to city 'C' and city 'B' are 140 kms. and 300 kms. respectively. Annual fixed costs and maintenance charges are Rs. 60,000 and Rs. 12,000 respectively. Running charges spent during January 2012 are Rs. 2,944. You are required to find out the cost per absolute ton-kilometer and the profit for January, 2012.

(1)

Turn Over

12. A company is planning a new product. Market research information suggests that the product should sell 10,000 units at Rs. 21/unit. The company seeks to make a mark-up of 40% product cost. It is estimated that the lifetime costs of the product will be as follows:

1. Design and development costs Rs. 50,000 ,
2. Manufacturing costs Rs. 10/unit
3. End of life costs Rs. 20,000.

The company estimates that if it were to spend an additional Rs. 15,000 on design, manufacturing costs/unit could be reduced. You are required to compute

- a. the target cost of the product?
- b. the original lifecycle cost per unit and is the product worth making on that basis?
- c. If the additional amount were spent on design, what is the maximum manufacturing cost per unit that could be tolerated if the company is to earn its required mark-up?

13. A factory is engaged in producing a product using two grades of materials A and B mixed in the ratio 3:2. The standard price of material A is Rs. 4 per unit and that of B Rs. 3 per unit. Normal loss in production is expected at 10%. Due to shortage of materials it was not possible to use the standard mix. However, normal loss is still expected to be 10% as formerly. The actual result was as follows

Material A 280 tones at Rs. 3.80

Material B 120 tones at Rs. 3.60

Actual production 364 tones

Calculate Material Price Variance and Material Mix Variance.

14. Following are the information given by an owner of a hotel. You are requested to advise him that what should be charge from his customers per day so that he is able to earn 25 % on cost other than interest.

1) Staff salaries Rs. 80,000 per annum

2) Room attendant's salary Rs. 2 per day. The salary is paid on daily basis and services of room attendant are needed only when the room is occupied. There is one room attendant for one room.

3) Lighting, heating and power. The normal lighting expenses for a room if it is occupied for the whole month is Rs. 50. Power is used only in winter and normal charge per month if occupied for a room is Rs. 20.

4) Repairs to building Rs. 10,000 per annum

5) Linen etc. Rs. 4,800 per annum

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- 6) Sundries Rs. 6,600 per annum
- 7) Interior decoration and furnishing Rs. 10,000 annually
- 8) Cost of building Rs. 4,00,000; rate of depreciation 5%
- 9) Other equipments Rs. 1,00,000; rate of depreciation 10%
- 10) Interest @ 5% may be charged on its investment of Rs. 5,00,000 in the building and equipment
- 11) There are 100 rooms in the hotel and 80% of the rooms are normally occupied in summer and 30% of the rooms are busy in winter. You may assume that period of summer and winter is six month each. Normal days in a month may be assumed to be 30.

(6x3= 18 weightage)

**Part C**

(Answer any *two* questions)

Each question carries a weightage of 6

15. What is strategic cost management? How it can be used to help a firm to create a competitive advantage?
16. Western Company manufactures three product costs. It presently uses a single factory overhead rate for allocating factory overhead to products, based on direct labour hours. The total factory overhead cost is budgeted as follows:

| Department                 | Manufacturing Overhead |
|----------------------------|------------------------|
| Production                 | Rs. 12,25,000          |
| Supervision and janitorial | Rs. 1,75,000           |

The company determined that it performed four major activities in the production department as follows:

| Activities            | Budgeted Cost |
|-----------------------|---------------|
| Setup                 | Rs. 4,28,750  |
| Storeroom support     | Rs. 3,67,500  |
| Quality control       | Rs. 1,83,750  |
| Production monitoring | Rs. 2,45,000  |

(3)

Turn Over

Western Company estimated the following activity-base usage quantities and units produced for each of its three products:

| Products | Units  | Direct Labour Hours | Setups | Production Orders | Inspections | Material Requisitions |
|----------|--------|---------------------|--------|-------------------|-------------|-----------------------|
| A        | 10,000 | 25,000              | 80     | 80                | 35          | 320                   |
| B        | 2,000  | 10,000              | 40     | 40                | 40          | 400                   |
| C        | 50,000 | 1,40,000            | 5      | 5                 | 0           | 30                    |
| Total    | 62,000 | 1,75,000            | 125    | 125               | 75          | 750                   |

Determine the budgeted factory overhead cost per unit for Products A, B, and C using the traditional cost allocation system and ABC costing.

17. A Ltd. produces product 'CARE' which passes through two processes before it is completed and transferred to finished stock. The following data relate to October 2010.

| Process  | I      | II     | Finished stock |
|--|--------|--------|----------------|
|  | Rs.    | Rs.    | Rs.            |
| Opening stock                                  | 7,500  | 9,000  | 22,500         |
| Direct materials                               | 15,000 | 15,750 |                |
| Direct wages                                   | 11,200 | 11,250 |                |
| Factory overheads                              | 10,500 | 4,500  |                |
| Closing stock                                  | 3,700  | 4,500  | 11,250         |
| Inter-process profit included in opening stock |        | 1,500  | 8,250          |

Output of I is transferred to process II at 25% profit on the transfer price. Output of process I transferred to finished stock at 20% profit on the transfer price. Stock in process is valued at cost. Finished stock is valued at which is received from process II. Sales during the period are Rs. 1,40,000. Prepare process accounts and finished goods account showing the profit element at each stage.

(6x2= 12 weight)

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