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M.Com. (CBCS) DEGREE EXAMINATION,
APRIL 2024.

Second Semester

Commerce – Core

STRATEGIC COST MANAGEMENT

(For those who joined in July 2023 onwards)

Time : Three hours

Maximum : 75 marks

PART A — (15 × 1 = 15 marks)

Answer ALL questions.

Choose the correct answer :

1. Which of the following is not suitable for a JIT production system?
 - (a) Batch production
 - (b) Jobbing production
 - (c) Process production
 - (d) Service production

2. TQM is a comprehensive management system which:
- (a) Focuses on meeting owner's/customer's needs, by providing quality services at a reasonable cost
 - (b) Focuses on continuous improvement
 - (c) Views organization as an internal system with a common aim
 - (d) All the above
3. Kaizen refers to
- (a) Continuous improvement
 - (b) Intermittent improvement
 - (c) Discontinuous improvement
 - (d) Stop improvement
4. Which of the following is an example of an external factor influencing cost reduction efforts?
- (a) Process improvement initiatives
 - (b) Labour union agreements
 - (c) Employee training programs
 - (d) Inventory management systems

5. Which of the following is not a common cost reduction strategy?
- (a) Outsourcing (b) Downsizing
 - (c) Cost leadership (d) Overstaffing
6. Which of the following factors affect the shape of a learning curve?
- (a) Complexity of the task
 - (b) Experience of the learner
 - (c) Task familiarity
 - (d) All of the above
7. Which of the following statements best describes an activity in Activity Based Costing?
- (a) An activity is any task or event that consumes resources
 - (b) An activity is only related to direct labour costs
 - (c) An activity is any expense incurred by the organization
 - (d) An activity is the final product or service provided by the organization

8. In Activity Based Costing (ABC), what is the purpose of using cost drivers?
- (a) To reduce the number of activities in the organization
 - (b) To increase overhead costs
 - (c) To allocate overhead costs to products or services based on the factors that drive those costs
 - (d) To eliminate overhead costs
9. Which of the following statements is true regarding the implementation of Activity Based Costing (ABC).
- (a) ABC is only suitable for large organizations
 - (b) ABC is simpler to implement compared to traditional costing methods
 - (c) ABC requires a detailed analysis of activities and their cost drivers
 - (d) ABC does not require any changes in the allocation of overhead costs
10. What is transfer pricing?
- (a) Pricing strategy used in retail
 - (b) Setting prices for intercompany transactions
 - (c) Setting prices for international trade
 - (d) Setting prices for government contracts

11. Which of the following is not a commonly used transfer pricing method?
- (a) Comparable Uncontrolled Price (CUP)
 - (b) Cost Plus
 - (c) Resale Price Method
 - (d) Market Penetration Pricing
12. Which of the following is not a primary objective of transfer pricing regulations?
- (a) To minimize tax liabilities
 - (b) To ensure fairness and transparency in intercompany transactions
 - (c) To prevent profit shifting
 - (d) To maximize shareholder value
13. Which cost management technique focuses on optimizing IT infrastructure and processes for cost efficiency?
- (a) Agile development
 - (b) Lean IT
 - (c) Waterfall methodology
 - (d) Six Sigma

14. Which cost management technique focuses on reducing waste and optimizing resource use in agriculture?

- (a) Lean farming
- (b) Traditional farming
- (c) Conventional farming
- (d) Industrial farming

15. Which of the following is NOT a component of agricultural cost management?

- (a) Labour costs
- (b) Seed costs
- (c) Land appreciation
- (d) Fertilizer costs

PART B — (5 × 4 = 20 marks)

Answer ALL questions, choosing either (a) or (b) not exceeding 250 words.

16. (a) Define the term value chain analysis. Explain its limitations.

Or

(b) Explain the components of cost to be reported in a cost of quality report.

17. (a) Discuss in details about the applications of learning curve.

Or

(b) Examine the 80:20 rule in Pareto analysis.

18. (a) The budget overheads and cost driver volumes of S Ltd. Are as follows-

Cost pools	Budgeted Overheads	Cost driver	Budgeted Volumes
Machinery purchased	9,00,000	No. of orders	3,000
Material Handling	4,00,000	No. of movements	1,000
Setup	3,00,000	No. of set-ups	600
Maintenance	10,00,000	Maintenance Hours	10,000
Quality control	2,00,000	No. of inspection	1,000
Machinery	10,00,000	No. of machine hours	20,000

The company has produced a batch of 3,000 components of AB-30. Its material cost is Rs.1,50,000 and direct labour cost Rs.3,00,000. The usage activities of said batch are as follows-

Machine hours	2,500	Setup	30
Material orders	30	Maintenance hours	500
Material movements	15	No. of inspections	30

- (i) Calculate cost driver rates that are used for treating appropriate amount of overheads to the said batch.
- (ii) Ascertain the cost of batch of components using activity based costing.

Or

- (b) ABC Ltd. has collected the following data for the two activities. It calculates cost rates based on cost driver capacity.

Activity	Cost Driver	Capacity	Cost
Power	Kilowatt hours	60,000 k.Whr.	Rs.3,00,000
Inspection	No. of Inspections	25,000 Inspection	Rs.5,00,000

The company makes three products A, B and C. For the year ended 31st March, 2016, the following consumption of cost drivers was reported.

Product	Kilowatt hours	Quality inspection
A	10,000	10,000
B	25,000	8,000
C	20,000	5,000

Required:

- (i) Compute the cost allocated to each product from each activity
- (ii) Calculate the cost of unused capacity for each activity.

19. (a) Give the name of any ten specific transactions applies in transfer pricing.

Or

- (b) State the most important external variables that affect the selection of transfer pricing method.

20. (a) Discuss the categories that contribute to the overall IT cost structure.

Or

- (b) Describe the 4D IT cost optimization framework.

PART C — (5 × 8 = 40 marks)

Answer ALL questions, choosing either (a) or (b) not exceeding 600 words.

21. (a) How the Indian cost accounting standard useful in quality control management? Explain.

Or

- (b) Define the term kaizen costing. Explain its process.

22. (a) "The learning curve describes the relationship between experience and performance". – Explain.

Or

- (b) Explain the principal lessons to be learned from life cycle costing.

23. (a) "ABC supports corporate strategy in many ways". Explain.

Or

- (b) A company makes two products using the same type of materials and skilled workers. The following information is available:

	Product A	Product B
Budgeted volume (units)	1,000	2,000
Material per unit (Rs.)	10	20
Labour per unit (Rs.)	5	20

Fixed cost relating to material handling amount to Rs. 1,00,000. The cost driver for these costs is the volume of material purchased.

General fixed costs, absorbed on the basis of labour hours, amount to Rs.1,80,000.

Using activity-based costing, what is the total fixed overhead amount to be absorbed into each unit of product B (to the nearest whole Rs.)?

24. (a) Division A sells soybean paste internally to Division B, which in turn, produces soybean burgers that sell for Rs.5 per pound. Division A incurs costs of Rs.0.75 per pound while Division B incurs additional costs of Rs.2.50 per pound.

Required:

- (i) What is Division A's operating income per pound, assuming the transfer price of the soybean paste is set at Rs.1.25 per pound?
- (ii) Formula correctly reflects the company's operating income?
- (iii) Transferring products or services at market prices generally leads to optimal decisions, when?
- (iv) What is a benefit of using a market-based transfer price?
- (v) What is a distress price?
- (vi) When the cost-based transfer prices are helpful?

Or

(b) Division X of the one Company sells product X to Division Y of the same company.

Data on division X

Produce on capacity	1,25,000 units
External sales of product X at Rs. 100 / unit	1,00,000 units
Transfer to Division Y	25,000 units
Variable manufacturing cost/ unit	84
Variable selling cost/ unit (on external sales but not on internal transfers)	2
Fixed selling cost (based on 1,00,000 units, on internal and external sales)	1

Data on division Y (assumes 25,000 units)

Variable manufacturing expenses/unit	100 (excluding internal transfer price/outside purchases)
Variable selling expenses/unit	6
Fixed manufacturing cost	10
Fixed selling expenses	4
Selling price per unit	240

If division X could sell 1,25,000 at Rs.100 outside. What minimum transfer price general management would prefer to provide proper motivation for division X to sell internally?

25. (a) Discuss the metrics or tools to measure the agricultural industry in cost management.

Or

(b) State the challenges associated with IT expenditure in MNCs. Which IT cost framework should be adopted?