

VPM's
DR VN BRIMS, Thane
Programme: MMS (2014-16) (Finance)
Third Semester Examination October 2015

Subject	Strategic Cost Management		
Roll No.		Marks	60 Marks
Total No. of Questions	7	Duration	3 Hours
Total No. of printed pages	3	Date	31.10.2015

Note: Q1 is compulsory and solve any FOUR from the remaining SIX questions.

Q1. The following details have been recorded for 4 batches made in a period
(20 Marks)

Batch	A	B	C	D
output in units	250	60	200	120
Cost per batch -Direct Material	165	750	2100	900
	0			
Direct labor	920	152	6880	240
	0	0		0
Labor hours per batch	115	190	860	300
	0			

The total production for period has been analyzed as follows

Machine related costs	14600
Material handling &Dispatch	6800
Stores	8250
Inspection/quality control	5850
Setup	6200
Engineering	8300
Total	50000

The following cost driver volumes were recorded

Batch	A	B	C	D	Total
Machine hrs per batch	52	25	61	32	171
	0	5	0	5	0
Material movements	18	70	20	40	495
	0		5		
Requisitions	40	21	43	26	130
Inspections	18	8	13	8	47
Setups	12	7	16	8	43
Engineering hours	65	38	52	35	190

You are required to calculate

1. The batch and unit cost using traditional costing (based on labor hour overhead absorption rate).
2. The batch and unit cost using ABC.
3. Compare the cost.
4. Comment on likely position of the firm using cost plus pricing.

Attempt Any FOUR from the Remaining SIX Questions

Q2) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

- a) Apply the concept of Cost Benefit Analysis in buying a laptop, analyze by both qualitative and quantitative methods?
- b) List down the industry where cost audit is mandatory and why such an action has been taken by the government?
- c) A ltd which manufacture small electric circuits, has a capacity to produce 4 lakh units. The mark demand is sensitive to all the sale price and it has been estimated that the company could sell 1 lakh unit when the price is 50 per circuit. Thereafter the demand would double for each rs 5 fall in the selling price. The company expects a minimum margin of **25%**. Accordingly, what should be the target cost to sell at full capacity?

Q3) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

- a) $1+1 = 3$, explain the equation in the context of synergies?
- b) List down the industries where cost audit is mandatory and why such an action has been taken by the government?
- c) Which Indian corporate has successfully implemented target costing and how? (Explain with any one example)

Q4) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

- a) Is the concept of Activity based costing applicable in service industry, justify your answer.
- b) What are hard money saving and soft money saving?
- c) Explain the six R's of Re-engineering?

Q5) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

- a) What is Six Sigma? Explain with examples?
- b) What is Strategic Cost Management, What is the present status of SCM in India?
- c) Explain the concept of Business Process Re-engineering?

Q6) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

- a) Explain productivity of labor, list down the reason for lower productivity?
- b) A company manufactures a component on batches of 2000 each. Each component is tested before being sent to agents for sale. Each component can be tested at the factory at a cost of rs 25. If any component is found to be defective, it can be rectified by spending rs 200. In view of large demand by component and the sophisticated system of manufacture, a proposal came up that the practice of pre-testing of the components to be dispensed with to save cost. In that event, any defective component is received back from the customer under warranty, the cost of rectification and re dispatch will be 400 per component.

State at what percentage of manufacture of component the company will find cheaper to pre test each component.

- c) What role vision and mission statement of a company plays in terms of long term cost reduction?

Q7) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

- a) Sportech ceramics Ltd is to replace its rapidly deteriorating boiler equipment. Three types of boiler system are being considered as a suitable replacement.
- (A) Coal fired
 - (B) Gas fired and
 - (C) Oil fired.

The associated costs are as follows.

Boiler system	A	B	C
Cost of boiler (including installation and commissioning)	55000	74000	67000
Annual Fuel cost	27000	23000	25000
Annual operating labour cost	8000	-	-
Annual maintenance cost	4000	3000	3000
Annual electricity cost	1000	1000	1000
Total annual operating cost	40000	27000	29500

The new boiler is expected to last at least ten years. The company has an opportunity cost of finance of 15% per year. Which system should be chosen?

- b) Based on the above problem, highlight how life cycle costing plays an import role in decision making?
- c) Explain the concept of Just in Time?