**ST.JOSEPH’S UNIVERSITY, BENGALURU -27**

Registration Number:

Date & session:

**M.COM – II SEMESTER**

**SEMESTER EXAMINATION: APRIL 2024**

**(Examination conducted in May/June 2024)**

**MCO8120 – Strategic Cost Management**

**(For current batch students only)**

**Time: 2 Hours Max Marks: 50**

**This paper contains three printed pages and three parts**

**PART-A**

**Answer any TWO of the following questions. (2 x 5 marks =10)**

1. A manufacturing concern which has adopted standard costing furnishes the following information.

**Standard:**

Material for 70 Kg of finished product of 100 Kg

Price of materials Re.1 per kg

**Actual:**

Output 2,10,000 kg.

Material used 2,80,000 kg.

Cost of materials Rs.2,52,000

**Calculate:**

a. Material Usage Variance

b. Material Price Variance

1. A company is currently producing 10,000 units of a product and selling them at a price of Rs.50 per unit. The variable cost per unit is Rs.30 and the fixed costs are Rs.100,000 per period. The company has an opportunity to sell an additional 2,000 units to a new customer at a special price of Rs.40 per unit. However, this would require an additional fixed cost of Rs.20,000 for marketing and distribution. Should the company accept this offer based on marginal costing?

Show necessary calculations and explain your decision.

1. Organizations are constantly trying to find ways to become more efficient and reduce costs. However, once manufacturing firms design a product and begin production, it is difficult to make significant changes that will reduce costs. How can target costing help with this issue?

**Section B**

**Answer any TWO of the following questions. (2 x 15 marks = 30)**

1. Trimake Limited makes three main products, using broadly the same production methods and equipment for each. A conventional product costing system is used at present, although an Activity Based Costing (ABC) system is being considered. Details of the three products, for typical period are:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Particulars** | **Labour Hours per unit** | **Machine Hours per unit** | **Material Per unit** | **Volumes Units** |
| Product X | ½ | 1 ½ | Rs.20 | 750 |
| Product Y | 1 ½ | 1 | Rs.12 | 1250 |
| Product Z | 1 | 3 | Rs.25 | 7000 |

Direct labour costs Rs. 6 per hour and production overheads are absorbed on machine hour basis. The rate for the period is Rs.28 per machine hour.

Further analysis shows that the total of production overheads are Rs.6,54,500 and can be divided as follows:

|  |  |
| --- | --- |
| **Particulars** | **Percentage (%)** |
| Costs relating to set-ups | 35 |
| Costs relating to machinery | 20 |
| Costs relating to materials handling | 15 |
| Costs relating to inspection | 30 |
| **Total production overhead** | **100%** |

The following activity volumes are associated with the product line for the period as a whole.

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **Number of Set-ups** | **Number of movements of materials** | **Number of Inspections** |
| Product X | 75 | 12 | 150 |
| Product Y | 115 | 21 | 180 |
| Product Z | 480 | 87 | 670 |
| **Total** | **670** | **120** | **1,000** |

**You are required:**

(a) To calculate the cost per unit for each product using conventional method. (5 marks)

b) To calculate the cost per unit for each product using ABC principles (10 marks)

1. **A)** What is Responsibility Accounting? Explain the different responsibility centres. (7 marks)

**B)** How do organizations ensure alignment between the four perspectives of the Balanced Scorecard to achieve strategic goals and maintain competitive advantage? Explain using the four perspectives. (8 marks)

1. ABC Co. wished to arrange overdraft facilities with its bankers during the period April 2024 to June 2024 when it will be manufacturing mostly for the stock. Prepare a Cash Budget for the above period from the following data, indicating the extent of the bank facilities the company will require at the end of each month.

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **Sales** | **Purchases** | **Wages** |
| February 2024 | Rs.1,80,000 | Rs.1,24,800 | Rs.12,000 |
| March 2024 | Rs. 1,92,000 | Rs.1,44,000 | Rs.14,000 |
| April 2024 | Rs.1,08,000 | Rs.2,43,000 | Rs.11,000 |
| May 2024 | Rs.1,74,000 | Rs.2,46,000 | Rs.10,000 |
| June 2024 | Rs.1,26,000 | Rs.2,68,000 | Rs.15,000 |

***Additional Information:***

1. 50% of the credit sales are realized in the month following the sales and remaining 50% in the second month following. Creditors are paid in the month following the month of purchases. There are no cash sales or cash purchases
2. Cash at bank [overdraft] estimated on 1st April 2024 is Rs.25, 000.

**Section C**

**Answer the following question. (1 x 10 marks = 10)**

1. MNO company manufactures three products M,N & O, the details of which are shown below:

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | M | N | O |
| Selling price per unit | Rs.360 | Rs.330 | Rs.390 |
| Direct material cost per unit | Rs.180 | Rs.210 | Rs.255 |
| Variable Overhead | Rs.90 | Rs.60 | Rs.45 |
| Maximum demand ( units) | 30000 | 25000 | 40000 |
| Time required on the bottleneck resource (hours per unit) | 10 | 8 | 6 |

There are 6, 40,000 bottleneck hours available each month.

Calculate the optimum product mix based on the throughput concept.