1. Answer any seven of the following sub-questions (in about 3-4 lines each). Each sub-question carries two marks. (7x2=14)
   a) What do you mean by Marginal Cost Pricing?
   b) Mention the factors by which the choice of strategy is influenced.
   c) Mention any two objectives of transfer pricing.
   d) Differentiate between learning curve and experience curve.
   e) State any two examples for prevention cost.
   f) What do you mean by cost of Non-conformance?
   g) Define TQM.
   h) What do you mean by Benchmarking?
   i) State any three criteria for setting transfer prices.
   j) What do you mean by customer perspective in Balanced Score Card?

2. "The learning curve will pass through three different phases." Discuss.
3. SLV Ltd., budgets to make 1,00,000 units of product P. The variable cost per unit is Rs. 10. Fixed cost are Rs. 6,00,000. The finance director has suggested that the cost plus approach should be used with a profit mark up of 25%. However, the marketing director disagreed and has supplied the following information:

<table>
<thead>
<tr>
<th>Price per unit (Rs.)</th>
<th>Demand (Units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>18</td>
<td>84000</td>
</tr>
<tr>
<td>20</td>
<td>76000</td>
</tr>
<tr>
<td>22</td>
<td>70000</td>
</tr>
<tr>
<td>24</td>
<td>64000</td>
</tr>
<tr>
<td>26</td>
<td>54000</td>
</tr>
</tbody>
</table>

As Management Accountant of the company analyze the above proposal and comment.

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

5. A company manufactures a specialized equipment. Direct labour required to make the first equipment is 2000 hours. Learning curve is 80%. Direct labour cost is Rs. 4 per hour. Direct material needed for one equipment is Rs. 7,200. Fixed overheads are Rs. 32,000.

Required:

i) Using the learning curve concept calculate the expected average unit cost of making (a) 4 equipments and (b) 8 equipments.

ii) After manufacturing 8 equipments, if a repeat order for manufacturing of another 8 equipments is received, what lowest price can be quoted for the repeat order?

6. “Quality improvement process of the TQM process is through a six-step activity sequence, identified by the acronym PRAISE”, Discuss.
IV Semester M.Com. Examination, June 2017
(CBCS Scheme)
COMMERCE
AT – 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 3-4 lines each.
   Each sub-questions carries two marks : (7×2=14)

   a) State any four features of Marginal Costing.
   b) What do you mean by differential cost analysis ?
   c) What is out-of-pocket cost ?
   d) State the governing principles in fixing transfer prices.
   e) What do you mean by learning curve ratio ?
   f) What is Experience Curve ?
   g) Differentiate between quality control and quality assurance.
   h) State the meaning of “PRAISE”.
   i) What is cost of Non-Conformance ?
   j) Differentiate between Bench Trending and Bench Marking.

SECTION – B

Answer any four of the following. Each question carries 5 marks : (4×5=20)

2. What are the different phases of learning curve ? Explain its uses.

3. A firm received an order to make and supply eight units of standard product which involves intricate labour operations. The first unit was made in 10 hours.

P.T.O.
It is understood that this type of operations is subject to 80% learning rate. The workers are getting a wages rate of Rs. 12 per hour.

a) What is the total time and labour cost required to execute the above order?

b) If a repeat order of 24 units is also received from the same customer, what is the labour cost necessary for the second order?

4. “Quality affects all aspects of the organization and has dramatic cost implications”. Discuss.

5. A company manufactures a single product, the estimated costs of which are as follows:
   Direct material Rs. 20 each
   Direct wages 10 hours at Re. 1.00 per hour
   Overhead absorption rate Rs. 2.00 per hour. (50% fixed overhead included)
   During this period, 1,000 units will be produced and sold as follows:
   900 units of first at Rs. 60 each
   50 units of second at Rs. 50 each
   50 units of third at Rs. 30 each
   Present information to management showing the loss due to the production of inferior units. By reprocessing the inferior units, taking the full re-processing time of a further 5 hours and adding further materials, costing Rs. 10 per unit, these ‘seconds’ and ‘thirds’ can be converted into ‘firsts’. Present information to the management.

6. Briefly explain the difficulties in PRAISE analysis.

7. Briefly explain the various stages in the process of Benchmarking.
SECTION – C

Answer any three of the following. Each question carries 12 marks: \(3 \times 12 = 36\)

8. “The essential requirements for successful implementation are described as the six C’s of TQM” – Explain.

9. Hittech Ltd. makes two products Crown and Peak. Both the products use the same labour force, the size of which is restricted to 38,000 hours per month. Crown needs two hours per unit to make whereas peak needs one hour. The estimated manufacturing and selling expenses etc. are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Crown</th>
<th>Peak</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nos. per month</td>
<td>6,000</td>
<td>8,000</td>
</tr>
<tr>
<td>Costs per month (Rs.)</td>
<td>8,50,000</td>
<td>10,50,000</td>
</tr>
<tr>
<td></td>
<td>20,000</td>
<td>24,000</td>
</tr>
<tr>
<td></td>
<td>16,00,000</td>
<td>18,40,000</td>
</tr>
</tbody>
</table>

The company is considering pricing options in a highly competitive market. It has estimated sales demand at various selling prices as under:

<table>
<thead>
<tr>
<th>Selling price per unit</th>
<th>Crown</th>
<th>Sales demand per month (Nos.)</th>
<th>Selling price per unit</th>
<th>Peak</th>
<th>Sales demand per month (Nos.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>138</td>
<td>6,000</td>
<td>81.50</td>
<td>20,000</td>
<td>20,000</td>
<td></td>
</tr>
<tr>
<td>136</td>
<td>7,000</td>
<td>81.00</td>
<td>21,000</td>
<td>21,000</td>
<td></td>
</tr>
<tr>
<td>134</td>
<td>8,000</td>
<td>80.50</td>
<td>22,000</td>
<td>22,000</td>
<td></td>
</tr>
<tr>
<td>132</td>
<td>9,000</td>
<td>80.00</td>
<td>23,000</td>
<td>23,000</td>
<td></td>
</tr>
<tr>
<td>130</td>
<td>10,000</td>
<td>78.00</td>
<td>24,000</td>
<td>24,000</td>
<td></td>
</tr>
<tr>
<td>127</td>
<td>11,000</td>
<td>76.00</td>
<td>25,000</td>
<td>25,000</td>
<td></td>
</tr>
</tbody>
</table>
Required:

a) What would be the profit maximizing selling price and monthly sales quantity for each product, if direct labour was available in unlimited supply?

b) Given the restriction of 38,000 hours per month, what is the profit maximizing sales price and quantity for each product?

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

11. A firm produces 5 different products from a single raw material. Raw material is available in abundance at Rs. 6 per kg. The labour rate is Rs. 8 per hour for all products. The plant capacity is 21,000 labour hours for the budget period. Production facilities can produce the products. The factory overhead rate is Rs. 8 per hour, comprising Rs. 5.60 per hour fixed overhead and Rs. 2.40 per hour as variable overhead. The selling commission is 10% of the product price.

Given the following information, you are to suggest a suitable sales mix which will maximize the company's profits. Determine the profits that will be earned at the selected sales mix.

<table>
<thead>
<tr>
<th>Product</th>
<th>Market demands</th>
<th>Selling price</th>
<th>Labour hours per unit</th>
<th>Raw material required per unit (in gms.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>4,000</td>
<td>32.00</td>
<td>1.00</td>
<td>700</td>
</tr>
<tr>
<td>B</td>
<td>3,600</td>
<td>30.00</td>
<td>0.80</td>
<td>500</td>
</tr>
<tr>
<td>C</td>
<td>4,500</td>
<td>48.00</td>
<td>1.50</td>
<td>1,500</td>
</tr>
<tr>
<td>D</td>
<td>6,000</td>
<td>36.00</td>
<td>1.10</td>
<td>1,300</td>
</tr>
<tr>
<td>E</td>
<td>5,000</td>
<td>44.00</td>
<td>1.40</td>
<td>1,500</td>
</tr>
</tbody>
</table>
Assume, in above situation, 3,500 hours of over-time working is possible. It will result in additional fixed overheads of Rs. 20,000; a doubling of labour rates and a 50% increase in variable overheads. Do your recommend to overtime working?

12. 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 lakhs. The product wise variable cost data are as under:

<table>
<thead>
<tr>
<th></th>
<th>BRITE (Rs./Unit)</th>
<th>LITE (Rs./Unit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct materials</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>Direct labour and variable overheads</td>
<td>140</td>
<td>35</td>
</tr>
<tr>
<td>Total</td>
<td>150</td>
<td>40</td>
</tr>
</tbody>
</table>

The direct labour and variable overhead 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. 300 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 as TITE 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:
<table>
<thead>
<tr>
<th></th>
<th>TITE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imported component</td>
<td>300</td>
</tr>
<tr>
<td>Direct materials</td>
<td>40</td>
</tr>
<tr>
<td>Direct labour and variable overheads (10 hours @ Rs. 25)</td>
<td>250</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>590</strong></td>
</tr>
</tbody>
</table>

The selling price of TITE is Rs.700 per unit. With a view of 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 slight modification in the manufacture of TITE which in that case will take two extra 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 division wise profitability and the profitability of the company as a whole on the basis of the following conditions:

a) CD imports its requirements 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 (a to d) for the company as a whole.
IV Semester M.Com. Examination, June 2016  
(CBSCS Scheme)  
Commerce  
AT – 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 – 4 lines each. Each sub-question carries two marks. (7x2=14)  
a) What do you mean by Product Pricing Policy?  
b) What is International Transfer Pricing?  
c) State the criteria for setting Transfer Price.  
d) What are Cost of lost opportunities?  
e) What do you mean by Financial Perspective in Balanced Scorecard?  
f) What is Experience curve?  
g) Define Total Quality Management.  
h) What are the phases of learning curve?  
i) State the meaning of Export Pricing.  
j) What do you mean by Benchmarking?  

SECTION – B  

Answer any four of the following in about one page. Each question carries 5 marks. (4x5=20)  

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

3. Discuss the guiding principles in the fixation of Transfer Prices.  


5. Briefly explain the impact of Benchmarking on Indian Industry.  

P.T.O.
6. ABC co. fixes the inter-divisional transfer prices for its product on the basis of cost plus a return on investment in division. The budget for division A for 2015–16 is as under:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Assets</td>
<td>Rs. 2,50,000</td>
</tr>
<tr>
<td>Current Assets</td>
<td>Rs. 1,50,000</td>
</tr>
<tr>
<td>Debtors</td>
<td>Rs. 1,00,000</td>
</tr>
<tr>
<td>Annual Fixed Cost of the Division</td>
<td>Rs. 4,00,000</td>
</tr>
</tbody>
</table>

Variable Cost per unit of product: Rs. 10
Budgeted volume: 2,00,000 units per year
Desired ROI: 28%

Determine the transfer price for Division A.

If the volume (in units) can be increased by 10%, what will be the impact on transfer price?

7. A Company wants to manufacture a new product against order. The initial trials showed that the first unit would take 10 hours @ Rs. 15 per hour and that the operations would be subject 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 the firm quote to get a margin of 20% on sales?

SECTION – C

Answer any three of the following. Each question carries 12 marks. (3×12=36)

8. What is the methodology of creating the Balanced Scorecard? How it differs from Traditional Financial Measures?

9. Briefly explain the applications of learning curve and explain the Managerial Considerations in the use of Learning Curves.
10. A company manufactures a single product, the estimated costs of which are as follows:

- Direct materials Rs. 10 each
- Direct wages 8 hours at Re. 0.50 per hour
- Overhead absorption rate Rs. 1.75 per hour. (50% fixed overhead included)

During this period, 1,000 units will be produced and sold as follows:
- 900 units of first at Rs. 30 each
- 50 units of second at Rs. 20 each
- 50 units of third at Rs. 10 each

Present information to management showing the loss due to the production of inferior units.

By reprocessing the inferior units, taking the full re-processing time of a further 8 hours and adding further materials, costing Rs. 4 per unit, these ‘seconds’ and ‘thirds’ can be converted into ‘firsts’.

Present information to the management.

11. Marlson Chair Company received an offer in October 2013 to sell 25,000 outdoor patio chairs to Easy Life Corporation. Easy life will like Marlson & Co. to bid for the proposed sales order and indicates that this is a one-time order.

Marlson Company produces 4,00,000 chairs annually by operating at 80% of full capacity. Regular selling price for this type of chairs is Rs. 33. The chairs required are similar to those currently being produced by Marlson and Co.

Budgeted annual production costs and other expenses for 2013 are as follows:

<table>
<thead>
<tr>
<th>Volume of 4,00,000 chairs</th>
<th>Total</th>
<th>Per unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw material</td>
<td>Rs. 17,00,000</td>
<td>Rs. 4.25</td>
</tr>
<tr>
<td>Direct labour</td>
<td>23,00,000</td>
<td>5.75</td>
</tr>
<tr>
<td>Variable Factory Overhead</td>
<td>31,00,000</td>
<td>7.75</td>
</tr>
<tr>
<td>Fixed Factory Overhead</td>
<td>25,00,000</td>
<td></td>
</tr>
<tr>
<td>Variable selling costs</td>
<td>5% of selling price</td>
<td></td>
</tr>
<tr>
<td>Fixed selling and adminstration overhead</td>
<td>Rs. 14,50,000</td>
<td></td>
</tr>
</tbody>
</table>
Marlson Company wants to earn a minimum profit of Re. 1 per chair and no selling expenses will be incurred for special order transactions. Assume that normal operations will not be affected by the special order and that regular sales volume for 2013 is 4,00,000 chairs as initially planned.

**Required:**

a) What should be minimum price to be quoted by Marlson & Co.?

b) Prepare an income statement analysis showing the position of Marlson & Co. without special order, for special order and with special order.

12. a) What is Marginal Cost Pricing? What are the arguments in favour and against marginal cost pricing?

b) What is Penetrating Pricing? Compare penetration pricing with skimming price policy.
IV Semester M.Com. Degree Examination, June 2015
(Semester Scheme)
Commerce
A-6 : STRATEGIC COST MANAGEMENT – II

Time: 3 Hours
Max. Marks: 80

Instruction: Answer all the Sections.

SECTION - A

Answer any ten of the following sub-questions. Each sub-question carries two marks.

1. a) What is target rate of return pricing?
   b) What do you understand by transfer of pricing?
   c) Distinguish between marginal cost and incremental cost.
   d) What is opportunity cost principle?
   e) List out the advantages of added value method of pricing.
   f) What are the essential ingredients of TQM?
   g) What do you mean by differential retention pricing?
   h) Define Balanced Scorecard.
   i) What is meant by prevention cost in cost of quality?
   j) State sealedbid pricing as a competition-oriented pricing method.
   k) Outline the steps involved in full cost pricing.
   l) List out the advantages of strategic cost management.

P.T.O.
SECTION B

Answer any three questions. Each question carries five marks. (3x5 = 15)

2. Explain the objectives of pricing policy.

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

4. What are the attributes to good performance measurement system?

5. The following information for the year 2014 relates to a mechanical Toy factory.

<table>
<thead>
<tr>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Material Cost</td>
</tr>
<tr>
<td>Labour Cost</td>
</tr>
<tr>
<td>Fixed overheads</td>
</tr>
<tr>
<td>Variable overheads</td>
</tr>
</tbody>
</table>

Units produced 12,000 Selling price per unit Rs. 50. Total capacity 20,000 units. The firm has an offer for the purchase of 5,000 units at a price of Rs. 40 per unit. If the offer is accepted, it would lead to

i) a saving of Rs. 1 per unit in material cost on all manufactured

ii) an increase in overhead by Rs. 35,000 and

iii) a drop in overall efficiency by 2% on the entire production. Would you advise acceptance of the offer?

6. Quantity Products Ltd. manufactures and markets a single product. The following data are available:

<table>
<thead>
<tr>
<th>Per Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rs.</td>
</tr>
<tr>
<td>Materials</td>
</tr>
<tr>
<td>Conversion Cost (variable)</td>
</tr>
<tr>
<td>Dealer's margin (10% of sale)</td>
</tr>
<tr>
<td>Selling price</td>
</tr>
<tr>
<td>Fixed Cost</td>
</tr>
<tr>
<td>Present sales</td>
</tr>
<tr>
<td>Capacity utilisation</td>
</tr>
</tbody>
</table>

There is stiff competition. Extra efforts are necessary to sell. Suggestions have been made for increasing sales.

a) By reducing sales price by 5%.

b) By increasing dealer's margin by 25% of the existing rate.

Which of the two suggestions you would recommend of the company desires to maintain the present profit? Give appropriate reasons.
SECTION – C

Answer any three questions. Each question carries 15 marks. \((3 \times 15 = 45)\)

7. Discuss briefly different pricing strategies and also explain the appropriate strategies for new products.

8. Describe the important provisions with regard to transfer pricing of international transactions in India.

9. Explain how does Balanced scorecard help in overcoming the drawbacks of traditional financial measures.

10. A company has two divisions. The output of Division A is Product ASS. There is a market outside the company for Product ASS, but this product is mainly used by Division B. Which has first call on Division A’s output. The output of Division B Product BEE is sold in the external market. The Product ASS has the following cost structure

   Variable Cost per unit  =  Rs. 7
   Fixed Cost per unit  =  Rs. 3

Management has decided a target rate of return of 12 percent for each division. The cost structure of Product BEE is given below :

   Transfer price own variable cost per unit  =  Rs. 15
   Fixed cost per unit  =  Rs. 7
   Market price per unit  =  Rs. 28

You are required to determine :

1) Transfer price of Product ASS per unit under
   i) Variable cost method, and
   ii) Cost plus

2) Selling price of Product BEE.
11. The XYZ company manufactures a product which costs:

- Fixed (per month) Rs. 1,000
- Variable (per unit) 10 paise

Sales are at present 10,000 units per month at 30 paise per unit.

a) A proposal to extend the sales to a foreign market has come where demand for an additional 5,000 units per month is expected. However, to do this it will be necessary to absorb additional shipping costs and duties amounting to 12 paise per unit. Will the foreign business be profitable?

b) A domestic chain store has offered to take 5,000 units per month at 18 paise per unit. Should this order be accepted in place of the foreign order?

c) The sales department proposes to reduce the selling price of the product to increase sales. The following estimates of the sales volume at various prices are made.

- 30 p. per unit (the present price) Rs. 10,000 pm
- 25 p. per unit (the present price) Rs. 14,000 pm
- 20 p. per unit (the present price) Rs. 19,000 pm

Assuming that the above estimates are correct, should you reduce the price? If so, to what level?
IV Semester M.Com. Degree Examination, June/July 2014
(NS) (2007-08 Scheme)
COMMERCE
A-6: Strategic Cost Management – II

Time : 3 Hours
Max. Marks : 80

SECTION – A

1. Answer any ten sub-questions from this Section. Each sub-question carries 2 marks. (10x2=20)
   a) Define strategic cost management.
   b) What is meant by transfer pricing?
   c) What is meant by opportunity cost?
   d) Distinguish between marginal cost and differential cost.
   e) Define cost.
   f) Write any two criticisms against marginal costing.
   g) Give the meaning of skimming pricing.
   h) What is TQM?
   i) State two drawbacks of traditional financial measures.
   j) What do you mean by price discrimination?
   k) Differentiate between cost reduction and cost control.
   l) What is meant by business process re-engineering?

SECTION – B

Answer any three questions. Each question carries 5 marks. (5x3=15)

a) What are the objectives of transfer pricing?

3. Explain the concept 'key factor' and its role in pricing decisions.

4. What is market based price? What are the limitations of market based pricing method?
ABC Ltd. makes a single product which sells for ₹ 60 per unit and there is great demand for the product. The variable cost of the product is ₹ 26 as detailed below:

- Direct materials: ₹ 10
- Direct labour (2 hours): ₹ 8
- Variable overhead: ₹ 8
- Total: ₹ 26

The labour force is currently working at full capacity and no extra time can be made available. Mr. Ramesh, a customer has approached the company with a request for the manufacture of a special order at ₹ 15,000.

The cost of the order would be ₹ 6,000 for Direct material and 1200 labour hours will be required and variable OH per hour shall be ₹ 4. Should the order be accepted?

6. PQR Ltd. has developed a new product which is about to be launched into the market. The variable cost of selling the product is ₹ 17 per unit. The marketing department has estimated that a sale price of ₹ 25, annual demand would be 10,000 units. However, if the sale price is set above ₹ 25, sales demand would fall by 500 units for each ₹ 0.50 increase above ₹ 25. Similarly, if the price is below ₹ 25, demand would increase by 500 units for each ₹ 0.50 stepped reduction in price below ₹ 25.

You are required to determine the price which would maximise PQR Ltd.'s profit in the next year.

SECTION – C

Answer any three questions. Each question carries 15 marks. (3 × 15 = 45)

- Explain the philosophy of continuous quality improvement and role of TQM in facilitating the value addition in an organization.

- What do you mean by BSC? Explain the role of BSC as a good performance measurement system.

- A large company is organised into several manufacturing divisions. The policy of the company is to allow the Divisional Managers to choose their sources of supply and when buying from or selling to sister divisions, to negotiate the prices just as they will for outside purchases or sales.
Division X buys all its requirements of its raw materials R from Division Y. The full manufacturing cost of R for Division Y is ₹ 90 per kg at normal volume. Till recently Division Y was willing to supply R to Division X at a transfer price of ₹ 85 per Kg. The incremental cost of R for Division Y is ₹ 80 per Kg. Since Division Y is now operating at its full capacity, it is unable to meet the outside customer’s demand for R at its market price of ₹ 110 per Kg. Division Y, therefore, threatened to cut off supplies to Division X unless the latter agrees to pay the market price for R.

Division X is resisting the pressure because its budget based on the consumption of 100000 Kgs per month at a price of ₹ 85 per Kg is expected to yield a profit of ₹ 25,00,000 per month and so a price increase to ₹ 110 per Kg will bring the Division X close to break-even point.

Division X has even found an outside supplier for a substitute material at a price of ₹ 105 per Kg. Although the substitute material is slightly different from R, it would meet the needs of Division X. Alternatively Division X is prepared to pay Division Y even the manufacturing cost of ₹ 90 per Kg.

Required:

1) Using each of the transfer price of ₹ 85, ₹ 90, ₹ 105 and ₹ 110 show with supporting calculations, the financial results as projected by Division X and Division Y.

2) If you were to make a decision in the matter without regard to the views of Divisional Managers, where should Division X obtain its raw materials from and at what price?

Asia Painters undertake painting jobs of cars, scooters and buses etc. The paint materials of desired shades are purchased from market and then painted by spray guns in paint shop by skilled painters. The budget for next year is given below:

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paint materials 100 kilo liters</td>
<td>₹ 20,00,000</td>
</tr>
<tr>
<td>Direct labour 25000 hours</td>
<td>₹ 8,00,000</td>
</tr>
<tr>
<td>Variable OH for 25000 hours</td>
<td>₹ 12,00,000</td>
</tr>
<tr>
<td>Total Variable costs</td>
<td>₹ 40,00,000</td>
</tr>
<tr>
<td>Fixed overheads</td>
<td>₹ 30,00,000</td>
</tr>
<tr>
<td>Total Expected costs</td>
<td>₹ 70,00,000</td>
</tr>
<tr>
<td>Profit 25%</td>
<td>₹ 17,50,000</td>
</tr>
<tr>
<td>Expected job work revenue</td>
<td>₹ 87,50,000</td>
</tr>
</tbody>
</table>
The firm always faces problems in getting paint materials from markets as the customer need only a particular shade. The skilled labour is also sometimes not available due to rush of jobs.

A customer wants to get his moped painted urgently. It is estimated that one litre paint is sufficient for painting his moped. Four labour hours will be required to complete the job.

**Required:**

1) What should be the painting charges if fixed costs are absorbed on the basis of variable costs and a profit of 25% on total costs?

2) What should be the charges in case the paint material is a limiting factor?

3) What should be the charges in case the skilled labour is a limiting factor?

Which price out of the above three would you recommend to the customer and why?

A company is at present working at 90% of its capacity and producing 1800 units per annum. It operates a flexible budgetary control system. The following figures are obtained from its budget.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>90%</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>18,00,000</td>
<td>20,00,000</td>
</tr>
<tr>
<td>Fixed Expenses</td>
<td>4,00,000</td>
<td>4,00,000</td>
</tr>
<tr>
<td>Semi-variable expenses</td>
<td>1,00,000</td>
<td>1,25,000</td>
</tr>
<tr>
<td>Variable expenses</td>
<td>1,50,000</td>
<td>1,60,000</td>
</tr>
<tr>
<td>Units made</td>
<td>18,000</td>
<td>20,000</td>
</tr>
</tbody>
</table>

Labour and materials cost per unit are constant under the present conditions. Profit margin is 10%.

a) You are required to determine the differential cost of producing 2000 units by increasing capacity to 100%.

b) What would you recommend for an export price for these 2000 units taking into account that overseas prices are much lower than indigenous prices.
IV Semester M.Com. Examination, June/July 2011
(2007-08 (N.S.) Scheme)
COMMERCE
Paper A.6 : Strategic Cost Management

Max. Marks : 80

SECTION – A

Answer any ten of the following sub-questions. Each sub-question carries 2 marks:

1. Define Marginal Cost.
2. Distinguish between contribution and profit.
3. What are the techniques of cost control?
4. Define cost management.
5. What are the limitations of absorption costing?
6. What is meant by Pricing Policy?
7. Define target costing.
8. What is meant by Value Engineering?
9. Define the meaning of cost driver.
10. Distinguish between cost centre and profit centre.

(10 × 2 = 20)

SECTION – B

Answer three questions from this Section. Each question carries 5 marks: (3 × 5 = 15)

1 a. Condiments bring out 2 products “Suchi” and “Ruchi” which are popular in the market. The management has the option to alter the sales-mix of the 2 products out of the following combinations:

<table>
<thead>
<tr>
<th>Suchi (Units)</th>
<th>Ruchi (Units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>800</td>
<td>600</td>
</tr>
<tr>
<td>1600</td>
<td>-</td>
</tr>
<tr>
<td>-</td>
<td>1300</td>
</tr>
<tr>
<td>1100</td>
<td>500</td>
</tr>
</tbody>
</table>
The per unit production cost/sales date are:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Suchi</th>
<th>Ruchi</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct materials (Rs.)</td>
<td>25</td>
<td>30</td>
</tr>
<tr>
<td>Direct labour (hours)</td>
<td>10</td>
<td>12</td>
</tr>
</tbody>
</table>

Variable factory overheads is 100% of direct labour cost for both products. Selling price for Suchi and Ruchi are ₹ 75 and ₹ 90 respectively. Labour rate is ₹ 2 per hour. Common fixed overhead for both products Rs. 10,000.

You are required to:

i) Prepare a marginal cost statement for the two products and
ii) Evaluate the options and identify the most profitable sales-mix.

3. PQR Ltd. makes a single product which sells for Rs. 30 per unit and there is great demand for the product. The variable cost of the product is Rs. 16 as detailed below:

<table>
<thead>
<tr>
<th></th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Materials</td>
<td>8</td>
</tr>
<tr>
<td>Direct labour</td>
<td>4</td>
</tr>
<tr>
<td>Variable OH</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>16</td>
</tr>
</tbody>
</table>

The labour force is currently working at full capacity and no extra time can be made available. Mr. J. M. Paul, a customer has approached the company with a request for the manufacture of a special order at Rs. 8,000.

The cost of the order would be Rs. 3,000 for Direct Materials and 600 labour hours will be required and variable OH per hour shall be Rs. 2. Should the order be accepted?

4. What is meant by price discrimination? When can it be profitable to the company?

5. What are the objectives of pricing?

6. Explain the role of cost accountant in cost control and cost reduction.
SECTION – C

Answer any three questions. Each question carries 15 marks. Answer to these questions should not exceed three pages: (3 × 15 = 45)

7. What is transfer pricing? Explain the methods of transfer pricing.

8. What is meant by Balanced Score-Card? How does it help in balancing the performance of an organisation?

9. Division A is a profit centre which produces X, Y and Z each product has an external market.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>X</th>
<th>Y</th>
<th>Z</th>
</tr>
</thead>
<tbody>
<tr>
<td>External market price per unit (Rs.)</td>
<td>48</td>
<td>46</td>
<td>40</td>
</tr>
<tr>
<td>Variable cost of production in division A (Rs.)</td>
<td>33</td>
<td>24</td>
<td>28</td>
</tr>
<tr>
<td>Labour hours required per unit in Division A</td>
<td>3 hrs.</td>
<td>4 hrs.</td>
<td>2 hrs.</td>
</tr>
</tbody>
</table>

Product Y can be transferred to Division B, but the maximum quality that might be required for transfer is 300 units of Y.

The maximum external sales are:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>X</td>
<td>800 units</td>
</tr>
<tr>
<td>Y</td>
<td>500 units</td>
</tr>
<tr>
<td>Z</td>
<td>300 units</td>
</tr>
</tbody>
</table>

Instead of receiving transfer of Product Y from Division A, Division B could buy similar product in the open market at a slightly cheaper price of Rs. 45 per unit. What should the transfer price be for each unit of Y for 300 units, if the total labour hours available in Division A are:

a) 3800 hours?

b) 5600 hours?

0. Engineers Ltd. plans to introduce two products A and B in the market. These will be manufactured in Department X which will be treated as a profit centre.

Production volume and costs are estimated as follows:

<table>
<thead>
<tr>
<th>Products</th>
<th>A</th>
<th>B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Production (units)</td>
<td>3,00,000</td>
<td>5,00,000</td>
</tr>
<tr>
<td>Direct Material Cost (p.u.)</td>
<td>150</td>
<td>180</td>
</tr>
<tr>
<td>Direct Labour Cost (Rs. 20 per hour)</td>
<td>300</td>
<td>420</td>
</tr>
</tbody>
</table>
The proportional overheads other than interest, chargeable to two products A and B are as under:

Factory OH (50% fixed) – 100% of Direct Wages
Administration OH (100% fixed) – 10% of Factory cost
Selling and Distribution OH (50% variable) – Rs. 30 and Rs. 40 respectively per unit of products A and B.

The Fixed Capital Investment in the Department will be Rs. 2,500 lakhs. The working capital requirement is equivalent to six months’ stock of cost or sales of both the products. To finance this project a term loan of 50% of working capital requirement has been obtained from a financial institution at an interest rate of 18% p.a. Department X is expected to give a return of 20% on capital employed.

Required:

1) Unit selling prices for products A and B, such that the contribution per labour hour is the same for both the products.

2) Statement of overall profitability expected.

11. A company is at present working at 90% of its capacity and producing 13,500 units per annum. It operates a flexible budgetary control system. The following figures are obtained from its budget:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>90%</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs.</td>
<td>Rs.</td>
</tr>
<tr>
<td>Sales</td>
<td>15,00,000</td>
<td>16,00,000</td>
</tr>
<tr>
<td>Fixed expenses</td>
<td>3,00,500</td>
<td>3,00,500</td>
</tr>
<tr>
<td>Semi fixed expenses</td>
<td>97,500</td>
<td>1,00,500</td>
</tr>
<tr>
<td>Variable expenses</td>
<td>1,45,000</td>
<td>1,49,500</td>
</tr>
<tr>
<td>Units produced</td>
<td>13,500</td>
<td>15,000</td>
</tr>
</tbody>
</table>

Labour and materials cost per unit are constant under the present conditions. Profit margin is 10%.

a) You are required to determine the differential cost of producing 1,500 units by increasing capacity to 100%.

b) What would you recommend for an export price for these 1,500 units taking into account that overseas prices are much lower than indigenous prices.