PG – 1321

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IV Semester M.Com. Degree Examination, October/November 2024
(CBCS) (2021 – 22)
COMMERCE (Accounting and Taxation)
Paper – 4.4 : Strategic Cost Management – II

Time : 3 Hours Max. Marks : 70

SECTION – A

1. Answer **any seven** questions out of **10**. **Each** question carries **2** marks. **(7×2=14)**

   a) State the differences between Pre-emptive pricing and Extinction pricing.

   b) What do you mean by target rate of return ? How do you calculate the price under this method ?

   c) Define quality. What are its dimensions ?

   d) In which circumstances skimming price policy may be appropriate.

   e) Give the meaning of pareto analysis pricing.

   f) What are the factors affecting learning curve ?

   g) What are the four concepts supporting Balanced score card ?

   h) Give the meaning of synergy with example.

   i) State the reasons for development of balanced score card.

   j) What is experience curve theory ?

SECTION – B

Answer **any four** questions. **Each** question carries **five** marks. **(4×5=20)**

2. Discuss the factors determining pricing policy of a company.

3. Explain different objectives of International Transfer Pricing.

4. Determine the selling price per unit to earn a return of 12% net on capital employed at net of tax 40%. The cost of production and sales of 80,000 units per annum are : Material Rs. 4,80,000 ; Labour charges Rs.1,60,000 ; Variable overheads Rs.3,20,000; Fixed overheads Rs. 5,00,000. The fixed portion of capital employed is Rs.12 lakhs and varying portion is 50% of sales turnover.

P.T.O.

5. A company has two divisions. Division 'A' and Division 'B'. Division 'A' has a budget of selling 2,00,000 units of a particular component of 'X' to fetch a return of 20% on the average assets employed. The following particulars of Division 'A' are also known :

Particulars	**Amount**
Fixed overheads	Rs. 5 lakhs
Variable cost	Re. 1 per unit
Average Assets :	
Sundry debtors	Rs. 2 lakhs
Inventories	Rs. 5 lakhs
Plant and equipments	Rs. 5 lakhs

However, there is constraint in marketing and only 1,50,000 units of the component 'X' can be directly sold to the market at the proposed price. It has been gathered that the balance 50,000 units of components 'X' can be taken up by the division 'B'. Division 'A' wants a price of Rs. 4 per unit of 'X' but division 'B' is prepared to pay Rs. 2 per unit of 'X'. Division 'A' has another option in hand, which is to produce only 1,50,000 units of components 'X'. This will reduce the holding of assets by Rs. 2 lakhs and fixed overheads Rs. 25,000. Advice most profitable course of action for division A.

6. Bharat electric and motor work gets an order for the supply of a component required by an automobile manufacturing company. The initial test order is for 2 pieces only. The details of actual cost incurred for the first order are given below :

Direct Material	20Kg. @ Rs. 100/kg
Direct Labour	4 Hours @ Rs. 100/hr
Variable overheads	@ Rs. 50 per labour hour
Fixed Overheads	@ Rs. 20 per labour hour

The firm quoted Rs. 1500 per unit for the above order and this was accepted by the buyer. The buyer then places a repeat order for 30 units of the component on condition that the total price should not exceed Rs. 40,000.

Do you recommend acceptance of the order and if so what is the percentage profit made by the firm from the second order ? If manufacturing of the component is subject to a learning effect of 80 percent curve.

7. The XYZ Corporation manufactures and sells Industrial grinders. The following table present financial information pertaining two years :

Particulars	2022 (Rs. thousands)	2023 (Rs. thousands)
Sales Revenue	12,500	10,000
Inspection of production	85	110
Scrap	200	250
Design engineering	240	100
Cost of returned Goods	145	60
Product testing equipment	50	50
Customer support	30	40
Rework Costs	135	160
Preventive equipment maintenance	90	35
Product liability claims	100	200
Incoming material inspection	40	20
Breakdown maintenance	40	90
Product testing labour	75	220
Training	120	45
Warranty Repair	200	300
Supplier evaluation	50	20

Required :

1) Classify the costs items into Prevention, Appraisal, internal failure or external failure categories.
2) *Calculate the ratio of each cost of quality to revenue in 2022 and 2023.* Comment on the trends in cost of quality between 2022 and 2023.

SECTION – C

Answer **any two** questions. **Each** question carries **twelve** marks. **(2x12=24)**

8. Define TQM and Explain the seven C"s of Total quality management.

9. Explain different steps in implementing the Balanced scorecard approach to performance measurement ?

10. Look Ahead Ltd. wants to fix proper selling prices for their products 'A' and 'B' which they are newly introducing in the market. Both these products will be manufactured in Department D, which is considered as a Profit Centre.

The estimated data are as under :

Annual Production (unit)	**A 1,00,000**	**B 2,00,000**
Direct materials per unit (Rs.)	15.00	14.00
Direct Labour per unit (Rs.)	9.00	6.00
(Direct Labour Hour Rate = Rs. 3)		

The proportion of overheads other than interest, chargeable to the two products are as under :

Factory overheads (50% fixed) 100% of Direct Wages.

Administration overheads (100% fixed) 10% of factory costs.

Selling and Distribution overheads (50% variable) Rs. 3 and Rs. 4 respectively per unit of products A and B.

The fixed capital investment in the Department is Rs.50lakhs. the working capital requirement is equivalent to 6 months stock of cost of sales of both the product. For this project a term loan amounting to '40 Lakhs has been obtained from Financial Institutions on a interest rate of 14% per annum. 50% of the working capital needs are met by bank borrowing carrying interest at 18% per annum. The Department is expected to give a return of 20% on capital employed.

you are required to : Fix the selling price of products A and B such that the contribution per direct labour hour is the same for both the products. Prepare a statement showing in details the overall profit that would be made by the Department,

11. A Company with two manufacturing divisions is organised on profit centre basis. Division 'A' is the only source for the supply of a component that is used in Division B in the manufacture of a product KLIM. One such part is used each unit of the product KLIM. As the demand for the product is not steady. Division B can obtain orders for increased quantities only by spending more on sales promotion and by reducing the selling prices. The Manager of Division B has accordingly prepared the following forecast of sales quantities and selling prices.

Sales units per day	**Average Selling price per unit of KLIM**
1,000	5.25
2,000	3.98
3,000	3.30
4,000	2.78
5,000	2.40
6,000	2.01

The manufacturing cost of KLIM in Division B is Rs. 3,750 first 1,000 units and Rs. 750 per 1,000 units in excess of 1,000 units. Division A incurs a total cost of Rs. 1,500 per day for an output to 1,000 components and the total costs will increase by Rs. 900 per day for every additional 1,000 components manufactured. The Manager of Division A states that the operating results of his Division will be optimised if the transfer price of the component is set at Rs. 1.20 per unit and he has accordingly set the aforesaid transfer price for his supplies of the component to Division A.

You are required :

a) Prepare a schedule showing the profitability at each level of output for Division A and Division B.

b) Find the profitability of the company as a whole at the output level which
   (i) Division A's net profit is maximum.
   (ii) Division B's net profit is maximum.

SECTION – D

Answer the following : **(1×12=12)**

12. A manufacturing company purchase one of the component required for the manufacture of product from two sources namely supplier A and supplier B . The price quoted by supplier A is Rs. 150 per hundred units of the components, and it is found that on the average 3% of the total receipt from the sources is defective The corresponding quotation from supplier B is Rs 145 but the defective would go up to 5% for total supply. If the defective are not detected they are utilised in production causing a damage cost of Rs.150 per hundred components.

    The company intends to introduce a system of inspection for the components on receipt which would cost Rs. 20 per hundred components. Such an inspection will, however be able to detect only 90% of the defective components received. No payment will be made for components found to be defective inspected.

    Offer your opinion (a) whether inspection at point of receipt is justified and, (b) which of the two supplier should be asked to supply. Assume total requirements of components to be 10000 unit.