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MBAH 502

Third Semester M.B.A. Degree Examination, April/May 2022
BUSINESS ADMINISTRATION
Strategic Cost Management

Time : 3 Hours Max. Marks : 70

SECTION – A

Answer **any two** questions. **Each** question carries **10** marks. Answer to the question should **not** exceed **six** pages. **(2×10=20)**

1. What are the stages involved in target costing ? Explain the methods used in setting 'Target cost'.

2. What are the types of cost management programs ? What are the precautions to be taken in implementation of Cost management programs ? Explain.

3. What is cost analysis ? How is it useful in decision making ? Explain.

SECTION – B

Answer **any three** questions. **Each** question carries **12** marks. Answer to the question should **not** exceed **six** pages. **(3×12=36)**

4. Beta Ltd. has decided to analyse the profitability of its five new customers. It buys bottled water at Rs.90 per case and sells to retail customers at a list price of Rs. 108 per case. The data pertaining to five customers are :

	Customers				
	A	**B**	**C**	**D**	**E**
Cases sold	4,680	19,688	1,36,800	71,550	8,775
List selling price	Rs.108	Rs.108	Rs.108	Rs.108	Rs.108
Actual Selling Price	Rs.108	Rs.106.25	Rs.99	Rs.104.40	Rs. 97.20
Number of Purchase Orders	15	25	30	25	30
Number of Customer Visits	2	3	6	2	3
Number of Deliveries	10	30	60	40	20
Kilometres Travelled per Delivery	20	6	5	10	30
Number of Expedited Deliveries	0	0	0	0	1

Its five activities and their cost drivers are :

Activity	**Cost Driver Rate**
Order taking	Rs.750 per purchase order
Customer visits	Rs.600 per customer visit

P.T.O.

Deliveries	Rs.5.75 per delivery KM travelled
Product handling	Rs. 3.75 per case sold
Expedited deliveries	Rs. 2,250 per expedited delivery

Required :

i) Compute customer level operating income of each of five retail customers now being examined (A,B,C,D and E). Comment on the results.

ii) What insights are gained by reporting both the list selling price and the actual selling price for each customer ?

5. Define balance score card. Explain characteristics and benefits of a good balance score card.

6. Due Pont & Company has two divisions. South Division manufactures an intermediate product for which there is no intermediate external market. North Division incorporates this intermediate product into final product which it sells. One product of intermediate product is used in the production of final product. The expected units of the final products, which North Division estimates it can sell at various selling prices are as follows :

Net Selling Price (Rs.)	Quantity Sold (units)
100	1,000
90	2,000
80	3,000
70	4,000
60	5,000
50	6,000

The costs of each division are as follows :

	South	North
Variable cost per unit	Rs.11	Rs. 7
Fixed cost per annum	Rs, 60,000	Rs. 90,000

The transfer price is Rs. 35 for the intermediate product and is determined on full cost plus basis.

You are Required to :

i) Prepare profit statement of each division and the company as a whole for the various selling prices.

ii) State which selling price maximises the profit of North Division and the company as a whole and comment on why latter selling price is not selected by North Division.

iii) State which transfer pricing policy will maximise the company's profit under divisional organization.

7. BPL is engaged in manufacturing automobile parts. The following particulars are available from the records of BPL :

	Rs.
Sales	50,00,000
less : variable costs	33,25,000
Contribution	16,75,000
Less : Fixed costs	9,00,000
Net Income	7,75,000

Following additional information concerning the performance of 3 departments has been given below :

	Departments		
Particulars	**A (Rs.)**	**B (Rs.)**	**C (Rs.)**
Sales	20,40,000	18,50,000	11,00,000
Variable Cost	14,00,000	12,13,000	7,12,000
Direct Fixed Cost	2,70,000	2,55,000	1,75,000

i) Rank the three departments on the basis of their proportionate measure of relative profitability.

ii) Corporate marketing department BPL proposes to increase advertisement expenses by Rs.1,50,000 with an expectations of 10% increase in sales in all three departments. Analyze the effects of this proposal on the company as a whole and on each department and give your suitable recommendation.

8. Titan company makes digital watches. Titan is preparing a product life cycle budget for a new watch Citizen. Development on the new watch is to start shortly. Estimates for Citizen watch are as follows :

	Rs.
Life cycle units manufactured and sold	4,00,000
Selling price per watch (Rs.)	600
Life cycle costs :	
R&D and design costs	1,00,00,000
Manufacturing :	
Variable cost per watch	150
Variable cost per batch	6,000
Watches per batch	500

Fixed costs :	1,80,00,000
Marketing:	
Variable Cost per watch	35
Fixed costs	10,00,000
Distribution costs :	
Variable cost per batch	280
Watches per batch	180
Fixed costs	72,00,000
Customer service cost per watch	15

Required :

i) Calculate the budgeted life cycle operating income for the new watch.

ii) Titans Market Research Department estimates reducing Citizen's price by Rs.30 will increase life cycle unit sales by 10%. If unit sales increase by 10% , Titan plans to increase manufacturing and distribution batch sizes by 10%' as well. Assume that all variable costs per watch, variable cost per batch, and fixed costs will remain the same. Should Titan reduce Citizen's price by Rs.30 ?

SECTION – C (Compulsory) (1×14=14)

Answer to the question should **not** exceed **six** pages. This question carries **fourteen** marks.

9. ABC Ltd., has prepared a flexible budget for the coming quarter. The following information is provided from the same :

Production Capacity	40%	60%	80%	100%
Costs :				
Direct Wages	24,000	32,000	40,000	48,000
Direct Materials	12,000	18,000	24,000	30,000
Production overheads (Fixed and variable)	12,600	13,800	15,000	16,200
Administrative overheads (Fixed and Variable)	6,200	6,600	7,000	7,400
Selling & Distribution overheads (Fixed and Variable)	6,800	7,400	8,000	8,600
	61,600	77,800	94,000	1,10,200

However, due to recession the company will have to operate at 50% capacity in the coming quarter. Selling prices has to be lowered to an uneconomic level and expected sales revenue for the coming quarter will be ₹ 49,500. But it is projected that in the next quarter following the coming quarter, the concern will operate at 70% capacity and generate a sales revenue of 90,000. The management is considering a suggestion to keep the operation suspended in the coming quarter and restart operation from the quarter when it is expecting to operate at 70% capacity. If the operation is suspended in the next quarter it is estimated that :

(a) The present fixed cost for the quarter would be reduced to Rs. 11,000.

(b) There will be cost of Rs.7,500 for closing down operations.

(c) There would be additional maintenance cost of Rs.24,000 for quarter.

(d) There would be an one time cost of Rs.20,000 in reopening the plant.

You are required to advise whether the factory should be kept operational during the coming quarter and also be the profit at 70% capacity utilization level.