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**MBAH 302**

Third Semester M.B.A. Degree Examination, March/April 2026
BUSINESS ADMINISTRATION
Strategic Cost Management

Time : 3 Hours

Sri Dharmasthala
 College of Business Management, Mangalore
 Post Graduate Centre for Management
 Studies and Research Library

Max. Marks : 70

SECTION – A

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

1. What is Strategic Cost Management ? Explain the steps involved in cost control and cost reduction system.
2. What is Transfer Price ? Explain the objectives and the methods of fixing transfer price.
3. What is Marginal Costing ? Explain the utility and limitations of marginal costing.

SECTION – B

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

4. Jasmine Ltd. manufactures a stationery item in three different sizes. All the sizes are manufactured at a plant having an annual capacity of 18,00,000 machine hours. Relevant data for each product is given below.

	Small	Medium	Large
Selling price per unit (₹)	75	90	130
Direct material cost per unit (₹)	25	32	35
Variable overheads per unit (₹)	5	7	8
Machine hours per unit	2	4	5
Demand (units)	2,10,000	1,50,000	1,80,000
Minimum production required (units)	1,00,000	1,00,000	1,00,000

Other relevant data is as follows :

- i) Cost of monthly payroll is ₹ 15,00,000.
- ii) Fixed overheads are ₹ 1,10,000 per month.

Required :

- a) Determine the most profitable product mix.
- b) Calculate the maximum profit for the product mix.

P.T.O.



5. A company currently operating at 80% capacity, shows the following profit and loss account.

	Amount (₹)	Amount (₹)
Sales		3,20,000
Direct material	1,00,000	
Direct labour	40,000	
Variable overhead	20,000	
Fixed overhead	1,30,000	2,90,000
Profit		30,000

It has received an offer of an overseas order that would require the use of half of the factory capacity. The order, which must be either taken in full or rejected completely be supplied at a price 10% below current domestic prices.

Management is in a dilemma.

They can either :

- Reject the order and carry on with home sales only as currently (or)
 - Accept the order, split the capacity equally between overseas and home sales and turn away excess home demand (or)
 - Increase factory capacity so that they can accept the order by maintaining the present home sales, by buying machine that will increase factory capacity by 10% and fixed cost by Rs. 20,000 and work on time and half to meet balance to required capacity.
- Advise the company.
6. What is meant by Balanced Score Card ? Explain the benefits and different perspectives of Balanced Score Card.
7. Bangalore Ltd. manufactures a component in two identifiable and separate departments, machine division and assembly division. Each division is treated as a profit center.

The machine division manufactures 24,000 components in a year and is able to sell 4,000 units at ₹ 5 per unit. The balance is transferred to assembly division at the same price. The prime cost per unit is ₹ 3.50 per unit and fixed cost is ₹ 20,000.

The assembly division manufactures and sells 20,000 units in the open market at ₹ 17 per unit.

The prime cost is ₹ 15.75 per unit and fixed cost is ₹ 15,000.

Calculate :

- Profit for each division and overall profit of the company.
- The assembly division wants to buy components from machine division at a transfer price of ₹ 4 per unit. What action would you suggest ?



8. Kurolin Express is a large manufacturer of recreational equipment. Performance of the camping division is measured as an investment center because the managers make all the decisions about investments in operating equipment and space. Following is financial information for the provision :

Average operating assets ₹ 20,00,000

Current liabilities ₹ 5,00,000

Operating income ₹ 3,00,000

Camping division's required rate of return is 12%, but outdoor express's weighted average cost of capital is 9% and the tax rate is 30%.

- a) Calculate ROI.
- b) Calculate the residual income.

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SECTION – C
(Compulsory)

(1×14=14)

9. The Vedaant Techno Company produces only two products : a major computer part and cell phones. The company uses a normal cost system and overhead costs are currently allocated using a plantwide overhead rate based on direct labour hour. Outside cost consultants have recommended, however the company use activity-based costing to charge overhead to products. The company expects to produce 4,000 computer parts and 2,000 cell phones in 2026. Each computer part requires two direct labour hours to produce and each cell phone requires one-half to produce. The direct material and direct labour costs included in the two products are as follows :

Item	Computer part	Cell phone
Direct material (per unit)	30	17
Direct labour cost (per unit)	16	4

Budgeted (estimated) total factory overhead data for 2026 :

Activity	Budgeted overhead	Estimated volume
Production setups	80,000	20 setups
Material handling	70,000	5,000 lbs
Packaging and shipping	1,20,000	6,000 boxes
Total factory overhead	2,70,000	



Based on an analysis of the three overhead activities, it was estimated that the two products would require these activities as follows in 2026 :

Activity	Computer part	Cell phone	Total
Production setups	5	15	20
Material handling (lbs)	1,000	4,000	5,000
Packaging and shipping boxes	4,000	2,000	6,000

- a) Calculate the cost of each product using plant-wide rate based on direct labour hour.
- b) Calculate the activity cost rates for
 - i) Setups
 - ii) Material handling
 - iii) Packaging and shipping
- c) Calculate the cost of the two products using activity-based costing systems.

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Computer part	Cell phone

Budgeted overhead	Estimated volume