PG – 526

IV Semester M.Com. Examination, June 2016
(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-question carries **two** marks. **(7×2=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. **(4×5=20)**

2. Explain the role of Management Accountant in product pricing.
3. Discuss the guiding principles in the fixation of Transfer Prices.
4. Differentiate between Learning Curve and Experience Curve.
5. Briefly explain the impact of Benchmarking on Indian Industry.

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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 :

Fixed Assets	Rs. 2,50,000
Current Assets	Rs. 1,50,000
Debtors	Rs. 1,00,000
Annual Fixed Cost of the Division	Rs. 4,00,000
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 trails 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 patro 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 :

Volume of 4,00,000 chairs	**Total**	**Per unit**
Raw material	Rs. 17,00,000	Rs. 4.25
Direct labour	23,00,000	5.75
Variable Factory Overhead	31,00,000	7.75
Fixed Factory Overhead	25,00,000	
Variable selling costs	5 % of selling price	
Fixed selling and administration overhead	Rs. 14,50,000	

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.

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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. **(10×2 = 20)**

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.

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SECTION – B

Answer **any three** questions. **Each** question carries **five** marks. **(3×5 = 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.

	Rs.
Material Cost	1,20,000
Labour Cost	2,40,000
Fixed overheads	1,20,000
Variable overheads	60,000

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 :

	Per Unit **Rs.**
Materials	16
Conversion Cost (variable)	12
Dealer's margin (10 % of sale)	4
Selling price	40
Fixed Cost	Rs. 5 lakhs
Present sales	90,000 units
Capacity utilisation	60 %

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. **(3×15=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 be 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 ?