2022

COMMERCE

Paper : CC-402

(Strategic Cost and Management Accounting)

Full Marks : 40

The figures in the margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable.

Module - I

Answer ***any two*** questions.

1. (a) When would you prefer Activity-based Costing System to Traditional Volume-based System?

(b) A firm manufactures two products: M and N. Consider the following information and determine the total costs per unit of M and N following Activity-based Costing System.

	M	N
Raw Material per unit	₹ 30	₹ 40
Direct Wages per unit	₹ 20	₹ 30
Machine Hour per unit	2	3
Production (units)	2000	3000
Machine Set-up (No.)	10	5
Material Movement (No.)	5	3

The firm incurs the following Overhead expenses for the products during a particular month :

Machine-related: ₹ 1,04,000; Set-up related: ₹ 9,000; Material Handling related: ₹ 8,000.

The firm estimates that Administrative, Selling & Distribution Overhead per unit will be ₹ 15 per unit for both M and N. 2+8

2. (a) RI and EVA are conceptually same but there are many differences. Explain.

(b) Calculate ROI, RI and EVA from the information given below :
Profit after Tax: ₹ 2,10,000; Tax rate: 30%; 12% Debenture: ₹ 1,00,000; Shareholders' Equity: ₹ 4.00,000; Sales: ₹ 5,60,000; Cost of Equity: 15%; Beta Value: 1.20; Risk-free rate of return: 5.5%. 3+7

3. (a) State the situations where market price based transfer pricing system may be used.

(b) A Company has two divisions — D_1 and D_1. Division D_1, operating at 80% of its capacity, manufactures and sells 20,000 units of a component per annum to fetch a return of 20% on the average assets employed. The following details are available in relation to the component manufactured by D_1.

	₹ per Unit
Direct Material (₹ 20 per kg.)	80
Direct Labour (₹ 25 per hour)	50
Variable Overhead	30
Fixed Overhead	20
Average Assets Employed per annum	₹ 20,00,000

Division D_2 requires 10,000 units of the component manufactured by D_1 for manufacturing its product P. Division D_2 incurs ₹ 75 per unit towards material, labour and overhead for further processing and sells the product at ₹ 300 per unit.

Determine the minimum transfer price per unit of the component that may be charged by division D_1 for transferring 10,000 units of the component to division D_2 assuming that only 90,000 kg of raw materials is available for manufacturing the component by division D_1.

Also show the divisional profits, and profit of the company, based on the minimum transfer price.

2+(5+3)

4. Write short notes on the following : 5+5

(a) Responsibility Centre;

(b) Balanced Scorecard.

Module - II

Answer ***any two*** questions.

5. (a) How does relevant costing approach impact on strategic management decision?

(b) An agro-products procedure company is planning its production for the next year. The following information is relating to the current year :

Products/Crops	P_1	P_2	Q_1	Q_2
Area Occupied (acres)	250	200	300	250
Yield per acre (ton)	50	40	45	60
Selling price per ton (₹)	200	250	300	270
Variable cost per acre (₹)				
• *Seeds*	300	250	450	400
• *Pesticides*	150	200	300	250
• *Fertilizers*	125	75	100	125
• *Cultivations*	125	75	100	125
• *Direct Wages*	4000	4500	5000	5700

Fixed overhead per annum is ₹ 53,76,000. The land that is being used for the production of Q_1 and Q_2 can be used for either crop, but not for P_1 and P_2. The land that is being used for the production of P_1 and P_2 can be used for either crop, but not for Q_1 and Q_2. In order to provide an adequate market service, the company must produce each year at least 2000 tons each of P_1 and P_2 and 1800 tons each of Q_1 and Q_2. You are suggested to

(i) Prepare a statement of the profit for the current year;

(ii) Prepare a statement of the profit for the production mix by fulfilling market commitment.

3+(3+4)

6. Write short notes on the following : 5+5

(a) Value Engineering; (b) Benchmarking.

7. X Ltd., a manufacturing company, having a capacity of 7 lakh units has prepared the following cost sheet:

Particulars	Per Unit (₹)
Direct Material	30
Direct Wages	12
Factory Overheads	30 (50% Variable)
Selling and Administration Overheads	18 (Two-third fixed)
Selling Price	120

During the year 2020-21, the sales volume achieved by the company was 6 lakh units. The company has launched an expansion programme, the details are given below:

(i) The capacity will be increased to 12 lakh units.

(ii) The additional fixed overheads will amount to ₹ 50 lakh upto 10 lakh units and will increase by ₹ 25 lakh more beyond 10 lakh units.

(iii) The cost of investment of expansion is ₹ 100 lakh which is proposed to be financed through Bank borrowings carrying interest at 15% p.a.

(iv) The average depreciation rate on the new investment is 15% based on straight line method.

After expansion is put through, the company has two alternatives for operations:

(i) Sales can be increased upto 10 lakh units by spending ₹ 10,00,000 on special advertisement campaign to explore new market.

Or,

(ii) Sales can be increased to 12 lakh units subject to the following:

- By an overall reduction of ₹ 10 per unit on all the units sold.
- By increasing the variable selling and administration expenses by 8%
- The direct material costs would go down by 1.5% due to discount on bulk purchasing.

You are required to:

(a) Construct a Flexible Budget at the level of 6 lakh, 10 lakh and 12 lakh units of production;

(b) Calculate break-even point before and after expansion;

(c) Advise the optimum level of output of expansion. 7+2+1

8. (a) A cost accountant of a company was given the following information regarding the fixed overheads for the month of March, 2022 :

(i) Overhead Cost Variance : ₹ 1400 (Adverse)

(ii) Overhead Volume Variance : ₹ 1000 (Adverse)

(iii) Budgeted hours for the month March 2022 : 1200 Hours

(iv) Budgeted overheads for the month March 2022 : ₹ 6000

(v) Actual rate of recovery of overheads : ₹ 8 per hour.

Compute :

(i) Overhead Expenditure Variance;

(ii) Overhead Capacity Variance;

(iii) Overhead Efficiency Variance.

(b) Briefly point out the factors that influence the decision to investigate a variance. 7½+2½