2023

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. 'Balanced Scorecard is a comprehensive performance measurement and management system'. Explain. 10

2. (a) Briefly discuss the importance of Life Cycle Costing.

(b) A manufacturing firm produces two products X and Y, using the same equipment. From the following, calculate the cost of production per unit of the products using both Traditional System and ABC System :

	X	Y
Output (unit)	2,000	10,000
Machine Hour per unit	6	4
Direct Labour Hour per unit	3	2
Machine setup (Nos.)	20	40
Purchase order (Nos.)	40	80

Total production overhead incurred during the period ₹ 78,000. Analysis of production overhead shows that :

Value related cost = ₹52,000

Setup related cost = ₹15,000

Purchase related cost = ₹11,000 3+(3+4)

3. A firm operates through its two divisions D_1 and D_2. D_1 operates at its full capacity and manufactures 20,000 units of a component per annum, incurring variable cost of ₹ 50 per unit and fixed cost of ₹ 10 per unit. 60% of the components manufactured by D_1 can be sold in the market at ₹ 80 per unit.

D_2 manufactures and sells 16,000 units per annum of a product 'P', operating at 80% of its capacity. For production of every unit of product 'P', D_2 requires one unit of the components manufactured by D_1. At the current level of operation, D_2 incurs variable cost of ₹ 40 per unit and fixed cost of ₹ 2,00,000 per annum and sells the product at ₹ 160 per unit.

D_1 is used to transfer the components to D_2 at the prevailing market price. However, on the basis of market demand, manager of D_2 says if the components are supplied at ₹ 60 per unit (i.e. full cost of manufacture), D_2 may reduce the selling price of product 'P' to ₹ 155 per unit and reduction in selling price will help selling more number of untis. Consequently, D_2 may operate at its full capacity and overall profit of the firm may increase.

Considering the above information,

(a) Suggest the minimum transfer price (MTP) per unit of the component that D_1 should charge for supplying 16,000 units to D_2;

(b) Also show the impact on the overall profit of the firm if manager of D_1 agrees to supply 20,000 units to D_2 at ₹ 60 per unit. 4+(2+2+2)

4. Write short notes on : 5+5

(a) Responsibility Accounting

(b) Costs of Quality.

Module - II

Answer ***any two*** questions.

5. (a) Give a basic idea about avoidable fixed cost.

(b) X Company Ltd. is operating at 8,000 units capacity and has received an order for 2,000 units from an export market at a price of ₹ 70 per unit. From the following information, you are required to advise the company as to whether the export order will be accepted or not :

Capacity (units)	Unit Cost (₹)	Unit Selling Price (₹)
6,000	80	100
7,000	75	97
8,000	74	95
9,000	72	—
10,000	71	—

(c) Y Company Ltd. is planning to discontinue the Division R. From the following information, you are required to advise the company as to whether the decision of discontinuing Division R will be beneficial to the company or not :

Particulars	Division P & Q (₹)	Division R (₹)	Total (₹)
Sales	41,40,000	5,17,500	46,57,500
Variable cost	20,70,000	2,76,000	23,46,000
Specific avoidable fixed cost	14,49,000	4,14,000	18,63,000

The rates of variable costs are 90% of the normal rates due to the current volume of operation. There is adequate market demand. The rates would go back to the normal rates for any lower volume of operation. It is important to note that facilities released by discontinuing Division R can not be used for any other purpose. 2+4+4

6. P Ltd. manufactures two products using two types of materials (X and Y) and one grade of labour. The following information is available to prepare the budget of the month August 2023 :

Particulars	**Product - A**	**Product - B**
Budgeted sales (units)	2,400	3,600
Budgeted material consumption per unit (in kg)		
Material - X	5	3
Material - Y	4	6
Standard labour hours allowed per unit per product	3	5

Material - X and Material - Y cost ₹ 4 and ₹ 6 per kg and labours are paid ₹ 30 per hour. Overtime premium is 50% and is payable, if a worker works for more than 40 hours a week. There are 180 direct workers. The target productivity ratio (efficiency ratio) for the productive hours worked by the direct workers in actually manufacturing the products is 80%. In addition, the non-productive down-time is budgeted at 20% of the productive hours worked.

There are four 5-days week in the budgeted period and it is anticipated that sales and production will occur evenly throughout the budgeted period.

It is anticipated that stock at the beginning of the period will be:

Product - A : 400 Units
Product - B : 200 Units
Material - X : 1,000 kg
Material - Y : 500 kg

The anticipated closing stocks for the budget period are as below:

Product - A : 4 days sales
Product - B : 5 days sales
Material - X : 10 days consumption
Material - Y : 6 days consumption

You are required to prepare Material Purchases Budget and the Wages Budget for the budget period showing the quantities and values. 5+5

7. (a) ABC Ltd. budgets to sell three products in the quarter ending March 31, 2023:

- 500 Units of product P @ ₹ 30 per unit
- 400 Units of product Q @ ₹ 20 per unit
- 100 Units of product R @ ₹ 50 per unit

During the quarter actual sales were as follows:

- 400 Units of product P @ ₹ 40 per unit
- 500 Units of product Q @ ₹ 10 per unit
- 50 Units of product R @ ₹ 40 per unit

You are required to calculate :

(i) Sales Price Variance

(ii) Sales Mix Variance

(iii) Sales Sub-Volume Variance

(b) Explain briefly the significance of standard costing as a technique of control. 6+4

8. (a) Why is Value Chain Analysis important for cost management? Explain.

(b) Discuss briefly the different types of Benchmarking in the organization. 5+5