

**2025**

**COMMERCE**

**Paper : CC-402**

**[ Strategic Cost and Management Accounting (SCM) ]**

**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) Discuss the relevance of Strategic Cost Management (SCM) in the contemporary business environment.
- (b) Kings Ltd. manufactures and sells 15,000 units of a product. The full cost per unit is ₹ 200. The Company has fixed its price so as to earn a 20% Return on Investment (ROI) of ₹ 18,00,000.

**Required :**

- (i) Calculate the Selling Price per unit from the above. Also, calculate the mark-up % on the full cost per unit.
  - (ii) If the selling price as calculated above represents a mark-up of 40% on variable cost per unit, calculate the variable cost per unit.
  - (iii) Calculate the Company's income if it had increased the selling price to ₹ 230. At this price, the Company would have sold 13,500 units. Should the Company have increased the selling price to ₹ 230?
  - (iv) In response to competitive pressures, the Company must reduce the price to ₹ 210 next year, in order to achieve sales of 15,000 units. The Company also plans to reduce its investment to ₹ 16,50,000. If a 20% Return on Investment should be maintained, what should be the Target Cost per unit for the next year? 4+6
2. (a) Mention the situations where the market-based transfer pricing system may be used.
  - (b) Luxury Ltd. is organised on decentralised lines, with each manufacturing division operating as a separate profit centre. Each division manager has full authority to decide on sale of the division's output to outsiders and to other divisions.

Division C of the Company has always purchased its requirements of a component from Division A. Due to the policy changes; Division A increased its selling price to ₹ 150. As a result, the manager of Division C decided to look at outside suppliers to purchase.

**Please Turn Over**

**(1620)**

Division C can buy the component from an outside supplier for ₹ 135. But Division A refuses to lower its price in view of its need to maintain its Return on Investment (ROI).

The top management has the following information :

Division C's annual purchase of the component	: 10,000 units
Division A's variable costs per unit	: ₹ 120
Division A's fixed cost per unit	: ₹ 20

**Required :**

- Will the company as a whole benefit, if Division C bought the component at ₹ 135 from an outside supplier?
- If Division A did not produce the material for Division C, it could use the facilities for other activities resulting in a cash operating savings of ₹ 1,80,000. Should Division C then purchase from outside sources?
- Suppose there is no alternative use of Division A's facilities and the market price per unit for the component drops by ₹ 20. Should Division C now buy from outside?  
Also show necessary calculations.

2+8

3. Mobile Components Ltd. manufactures three types of components namely P, Q and R for high value mobile phones. The data relating to the quarter ended 31st March, 2025 are as under :

Particulars	P	Q	R
Machine hours per unit	10	18	14
Direct labour hours per unit (@ ₹ 20)	4	12	8
Direct Material per unit (₹)	90	80	120
Production (units)	3,000	5,000	20,000

Currently the company uses traditional costing method and absorbs all production overhead on the basis of machine hours. The machine hour rate of overheads is ₹ 6 per hour.

The company proposes to use activity-based costing system and the activity analysis is as under :

Particulars	P	Q	R
Batch size (units)	150	500	1,000
Number of purchase orders per batch	3	10	8
Number of inspections per batch	5	4	3

The total production overheads are analysed as under :

- Machine set up costs : 20%
- Machine operation costs : 30%
- Inspection costs : 40%
- Material procurement related costs : 10%

**Required :**

- (i) Calculate the cost per unit of each product using traditional method of absorbing all production overheads on the basis of machine hours.
- (ii) Calculate the cost per unit of each product using activity- based costing principles.
- (iii) Show the differences between (i) and (ii), and offer your comment. 3+5+2
4. (a) What do you mean by 'Residual Income' and 'Economic Value Added'? State the differences, if any, between these two concepts.
- (b) "The need to integrate financial and non-financial measures of performance and identify key performance measures that link measurements to strategy led to the emergence of the Balanced Scorecard"— Elucidate. 5+5

**Module – II**

Answer *any two* questions.

5. (a) Point out the main factors that a company should consider when deciding whether to manufacture a product in-house or purchase it from an external supplier.
- (b) An agro-products producer company is planning its production for the next year. The following information is relating to the current year :

Products	A <sub>1</sub>	A <sub>2</sub>	B <sub>1</sub>	B <sub>2</sub>
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 (₹) :				
• Direct Materials	700	600	950	900
• Direct Wages	4,000	4,500	5,000	5,700

Fixed overhead per annum is ₹ 53,76,000. The land that is being used for the production of B<sub>1</sub> and B<sub>2</sub> can be used for either crop, but not for A<sub>1</sub> and A<sub>2</sub>. The land that is being used for the production of A<sub>1</sub> and A<sub>2</sub> can be used for either crop, but not for B<sub>1</sub> and B<sub>2</sub>. The company must produce each year at least 2,000 tons each of A<sub>1</sub> and A<sub>2</sub> and 1,800 tons each of B<sub>1</sub> and B<sub>2</sub> in order to provide an adequate market service. You are required 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 and give your appropriate comment;
- (iii) If the land could be cultivated to produce any of the four products and there was no market commitment, determine the amount of profit. 3+(2+3+2)

**Please Turn Over**

**(1620)**

6. (a) Describe the different types of benchmarking and their respective applications.  
 (b) Describe the primary and support activities involved in the value chain with examples. 5+5
7. XYZ Ltd. manufactures two products A and B and forecasts the number of units to be sold in the first seven months of a year is given below :

Month	Product - A	Product - B
January	1,000	2,800
February	1,200	2,800
March	1,600	2,400
April	2,000	2,000
May	2,400	1,600
June	2,400	1,600
July	2,000	1,800

It is anticipated that :

- (i) There will be no work-in-progress at the end of any month;  
 (ii) Finished units equal to half the sales for the next month will be in stock at the end of each month (including December of previous year).

Budgeted production and production cost for the year ending 31st December are :

Particulars	Product-A	Product-B
Production (units)	22,000	24,000
Direct material per unit	₹ 12.50	₹ 19.00
Direct wages per unit	₹ 4.50	₹ 7.00
Total factory overhead apportioned to each type of product	₹ 66,000	₹ 96,000

Prepare for the 6 months period ending 30th June of the year a production budget for each month and a summarized production cost budget. 4+6

8. (a) The following information has been extracted from the books of Fox Engineering Ltd. using standard costing system :

Actual Output	9,000 units
Direct Wages paid	1,10,000 hours @ ₹ 22 per hour, of which 5,000 hours, being idle time, not recorded in production.
Standard Hours	10 hours per unit
Labour Efficiency Variance	₹ 3,75,000 (A)
Standard Variable Overhead	₹ 150 per unit
Actual Variable Overhead	₹ 1,60,000

You are required to work out the following :

- (i) Idle Time Variable Overhead Variance
  - (ii) Total Variable Overhead Variance
  - (iii) Variable Overhead Expenditure Variance
  - (iv) Variable Overhead Efficiency Variance.
- (b) Narrate the accounting treatment of cost variances.

6+4