SVKM's NMIMS

School of Distance Learning

Programme: PGDFM

Academic Year:	2011-2012	Semester	III
Subject:	Strategic Cost Management	Course	New
		Marks:	70
Date:	28.12.2011	Time:	3.00 p.m to 6.00 p.m

TIME: 3 hours

Instructions : Candidates should read carefully the instructions printed on the question paper and on the Answer Book, which is provided for their use.

NB : 1. Answer to each question to be started on a fresh page
2. Figures in bracket indicate full marks

Question 1. Attempt any 2 out of 4 (Marks 10) - Answer Briefly

a. Explain Activity Based Management
b. Define Cost Control
c. Define Product Life Cycle Costing
d. Describe objectives of Cost Audit

Question 2. Write Short notes on any 2 out of 5 (Marks 10) - Answer Briefly

a. Cost Reduction
b. Marginal Cost
c. Value Chain Analysis
d. Learning & Growth Perspective
e. Revenue Center

Question 3. Attempt any 3 out of 5 (Marks 30)

a. "Business Process Re-engineering (BPR) identifies, analyses, and redesigns an organisations core business processes with an aim of achieving dramatic improvements in critical performance measures such as costs, quality, service and speed", Discuss.

b. "Total Quality Management (TQM) attempts to retain or regain competitiveness in order to achieve customer satisfaction in the face of increasing competition from around the world in this era of globalisation", Elaborate with examples.

c. How cost benefit analysis could be beneficial to the business?
What could be constraints in use of cost-benefit analysis?

d. "Price is a crucial product – positioning factor that defines the product's market, competition and design", How does Target Costing help in achieving this?

e. What is Balanced Score Card?
How does organization benefit from Balanced Scorecard approach?

Question 4 Answer the following - (Marks 20)

a). Recently launched Product X of Creative Corporation has not achieved the customer acceptance as expected and hence it hence is withdrawn from market. Now this has resulted in unutilized production capacity. In search of a new product to produce with existing facilities, the company has narrowed its study to two vis; Product Y and Product Z. The relevant data is given below -

	Product Y (Rs. Per unit)	Product Z (Rs. Per unit)
Selling price	20.00	2.50
Costs		
Direct material	10.00	0.80
Direct Labour	3.00	0.45
Variable Factory Overhead	1.00	0.15
Variable Selling Overhead	2.00	0.40
Total Marginal Cost	16.00	1.90

Total Fixed selling Overheads – product specific -
- Product Y – Rs 6000
- Product Z– Rs 10,000.

The current fixed factory overhead of Rs. 15,000 p.a. and fixed selling overhead of Rs. 5,000 p.a. would not be affected and are not relevant. The company has sufficient capacity to produce 4,000 units of Product Y or 30,000 units of Product Z. Market studies indicate that these units may be sold at the planned market prices.
Which product should be added?

b). B Ltd. produces and sells bicycles. It also manufactures the chains for its bicycles.

It expects to produce and sell 24,000 bicycles during 2012. It is considering an offer from an outside vendor to supply any number of chains for Rs. 12 per chain.

The accountant of the company reports the following costs for producing 24,000 chains:

Cost	Cost Per Unit	Total Cost
Direct Material	5.00	120000
Direct Labour	4.00	96000
Variable Manufacturing Overhead	3.00	72000
Machine rent	1.00	24000
Allocated fixed expenses	1.25	30000
Total	14.25	342000

The following additional information is available:

1. Direct Labour cost represents wages to four workers who are exclusively engaged in the manufacturing of chains. These workers are in permanent capacity and cannot be retrenched even if the company stops the production of chains.
2. If B ltd. procures it chains from the vendor; it will not require the machine, which it has hired for manufacturing chains.

Required:

a) Assume that if B Ltd. purchases chains from outside vendors, the facility where the chains are currently manufactured will remain idle. Should B. Ltd. accept the offer from outside vendor at the anticipated production and sales volume of 24,000 units?

b) Whether your decision will change if facilities can be used to upgrade the Bicycles, which will result in incremental revenue of Rs. 22 per bicycle. The variable cost of upgrading would be Rs. 18 and tooling cost would be Rs. 16,000

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