

MBA DEGREE EXAMINATIONS: DECEMBER – 2008

Fifth Trimester

P07BA511: STRATEGIC COST MANAGEMENT

Maximum Marks: 100

Time: Three Hours

**Answer ALL Questions:-
PART A (1 x 20 = 20 Marks)**

Case Study

1. Phillips India manufactures and sells lighting products. Phillip's sales and marketing divisions are organized along product lines-wall sconces, recessed lights, track lights, and so on. The Manufacturing Division produces lighting products for all the sales and marketing divisions.

During the planning process, each sales and marketing division specifies the quantity of each style of light to be manufactured. Senior management then assigns the task of manufacturing the lights to different plants in the Manufacturing Division. Because manufacturing capacity is limited, some of the production is also outsourced. Senior management determines the manufacturing schedule on the basis of detailed studies that have been done to measure the time and cost of manufacturing different types of lighting products. Manufacturing managers are evaluated based on achieving target output within budgeted costs.

- (a). Are the manufacturing plants in the manufacturing Division cost centers or profit centers? Explain.
- (b). Phillips India is considering decentralizing its marketing and manufacturing decisions by letting manufacturing and marketing directly negotiate the prices for manufacturing various products.
- (i) How should Phillips evaluate manufacturing plant managers under this purpose?
- (ii) Would you recommend that Phillips India decentralize its marketing and manufacturing decisions? Explain.

PART B (10 x 2 = 20 Marks)

2. Define the term strategic cost management.
3. Name any two factors that will affect the classification of a cost as a direct or indirect.
4. What is a target cost per unit?
5. What is life cycle costing?

6. What is an activity-based approach to designing a costing system?
7. List any four decisions for which ABC information is useful.
8. How might the optimal solution of a linear programming problem be determined?
9. What are the two key assumptions examined in specification analysis in the case of simple regression?
10. What is a management control system?
11. Why should managers consider income tax issues when choosing a transfer-pricing method?

PART C (4 x 15=60 Marks)

12. (a) Define the term cost . Also explain different types and elements of cost.

(OR)

12. (b) Prepare a cost sheet from the following data to find out profit and cost per unit during the month of Jan 2008:-

Raw Material Consumed	Rs.4,00,000/-
Direct Wages	Rs.1,60,000/-
Factory Overheads	Rs.40,000/-
Direct Expenses	Rs.1,00,000/-
Office Overheads	10% on Factory Cost
Selling Overheads	Rs.10/- per unit
Units produced	5000 units
Selling price	Rs.240/- per unit
Unit Sold	4600 units

- 13.(a) Describe briefly different tools and technologies in Total Cost Management.

(OR)

- 13.(b) Vijay Tiles is a small distributor of marble tiles. Vijay identifies its three major activities and cost pools as ordering, receiving and storage, and transporting, and reports the following detail for 2006:

S. No.	Activity	Cost Driver	Quantity of Driver Cost	Cost per unit of Cost Driver
1.	Placing and paying for orders of marble tiles	Number of orders	500	Rs.500 per order
2.	Receiving and storage	Loads moved	4,500	Rs.300 per load
3.	Transporting of marble tiles to retailers	Number of Consignments	1,500	Rs.400 per consignment

Vijay's buys 250,000 marble tiles at an average cost of Rs 30 per tile and sells them to retailers at an average price of Rs 40 per tile. Assume Vijay has no fixed costs.

(i). Calculate Vijay's operating income for the year 2006. (07)

(ii) For the year 2006, retailers are demanding a 5% discount off the year 2006 price. Vijay's suppliers are only willing to give a 4 % discount. Vijay's expects to sell the same quantity of marble tiles in the year 2007 as in the year 2006. If all other costs and cost-driver information remain the same, calculate Vijay's operating income for the year 2007. (08)

14. (a) "Activity Based Costing is the wave of the present and the future. All companies should adopt it". Do you agree? Explain.

(OR)

14. (b) Citizen company produces mathematical and financial calculators. Data related to the two products is presented below:

	Mathematical	Financial
Annual production in units	50,000	1,00,000
Direct material costs	Rs.1,50,000	Rs.3,00,000
Direct manufacturing labour costs	Rs. 50,000	Rs.1,00,000
Direct manufacturing labour-hours	2,500	5,000
Machine-hours	25,000	50,000
Number of production runs	50	50
Inspection hours	1,000	500

Both products pass through Department 1 and Department 2. The departments combined manufacturing overhead costs are

	Total
Machine costs	Rs.3,75,000
Setup costs	Rs.1,20,000
Inspection costs	Rs.1,05,000

- (i). Compute the manufacturing overhead cost per unit for each product. (07)
- (ii) Compute the manufacturing cost per unit for each product. (08)

15. (a) What is the difference between linear and a nonlinear cost functions? Give an example of a type of cost function.

(OR)

15. (b) "All the independent variables in a cost function estimated with regression analysis are cost drivers". Do you agree? Explain.
