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14MBAFM305

Third Semester MBA Degree Examination, June/July 2016
Cost Management

Time: 3 hrs.

Max. Marks: 100

SECTION - A

Note : Answer any FOUR questions from Q.No.1 to Q.No.7.

- 1 What is meant by Cost? (03 Marks)
- 2 What do you mean by Standard costing? (03 Marks)
- 3 What is margin of Safety? (03 Marks)
- 4 What is meant by Activity based costing? (03 Marks)
- 5 What is zero based budgeting? (03 Marks)
- 6 What is Overhead? (03 Marks)
- 7 Define Cost audit. (03 Marks)

SECTION - B

Note : Answer any FOUR questions from Q.No.1 to Q.No.7.

- 1 Distinguish between Absorption costing and Marginal costing. (07 Marks)
- 2 Explain Imputed cost, Out of Pocket cost, Relevant cost and Sunk cost. (07 Marks)
- 3 State the difference between allocation and apportionment of overheads. (07 Marks)
- 4 What is Target costing? What are its merits? (07 Marks)
- 5 Mr. Peter furnishes the following data relating to the manufacture of a standard product during the month of April 2015. (07 Marks)

Raw materials consumed	Rs 15,000
Direct labour charges	Rs 9,000
Machine hours worked	900 hrs
Machine hour rate	Rs 5
Administrative overheads	20% on work cost
Selling overheads	Rs 0.50 per unit
Units produced	17,100
Units sold	16,000 @ Rs 4/- per unit

You are required to prepare a cost sheet from the above showing :

- i) The cost of production per unit.
- ii) Profit per unit sold and profit for the period.

- 6 You are given the following data : (07 Marks)

Year	Sales (₹)	Profit (₹)
2013	1,20,000	8,000
2014	1,40,000	13,000

Assuming that the cost structure and selecting price remain unchanged in two years, find out :

- i) P/v ratio
- ii) BEP
- iii) Profit when sales are ₹ 1 lakhs
- iv) Sales required to earn profit of Rs 20,000
- v) Margin of safety in 2014.



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- 7 State the significance of computing Material cost variance, Material usage variance. (07 Marks)

SECTION - C

Note : Answer any FOUR questions from Q.No.1 to Q.No.7.

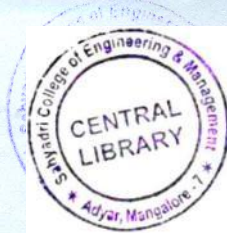
- 1 Define Management audit and explain its objectives. (10 Marks)
- 2 What is activity based costing? Explain steps in brief. (10 Marks)
- 3 Discuss the advantages of cost audit to management, Shareholders, Consumer and the Government. (10 Marks)
- 4 80 kgs of material A, at a standard price of ₹ 2/- per kg and 40 kgs of material B, at a standard price of ₹ 5/- per kg, were to be used to manufacture 100 kgs of a chemical. During a month, 70 kgs of material A priced at ₹ 2.10 per kg and 50 kg of material B priced at ₹ 4.50 per kg, were actually used and the output of the chemical was 102 kgs. Find out the material variances. (10 Marks)
- 5 A machine was purchased for ₹ 5 lakh. The total cost of all machinery inclusive of the new one was ₹ 75 lakh. The following particulars are available. (10 Marks)
- Expected life of the machine 10 years.
Scrap value at the end of ten years ₹ 5,000/-
Repairs and maintenance for the machine during the year ₹ 2,000/-
Expected number of working hours of the machine per year 4,000 hrs.
Insurance premium annually for all the machine ₹ 4,500/-
Electricity consumption for the machine per hour (@ 75 paise per unit) 25 units.
Area occupied by the machine 100 sq.ft. Area occupied by other machines 1500 sq. ft.
Rent per month of the department ₹ 800/-
Lighting charges for 20 points for the whole department, out of which three points are for the machine ₹ 120/- P.M.
Compute the machine hour rate for the new machine on the basis of the data given above.
- 6 Following information has been made available from the cost records of United Automobiles Ltd., manufacturing Spare parts.

Particulars	X	Y
Direct materials	Rs 8/- per unit	Rs 6/- per unit
Direct wages	24 hours @ 25 paise /hr	16 hours @ 25 paise/hr
Variable over heads	150% of wages	
Fixed overheads	Rs 750/-	
Selling price	Rs 25/-	Rs 20/-

The Directors want to be acquainted with the desirability of adopting any one of the following alternative sales mix in the budget for the next period.

- 250 units of X and 250 units of Y.
- 400 units of Y only.
- 400 units of X and 100 units of Y.
- 150 units of X and 350 units of Y.

State which of the alternative sales mixes you would recommend to the management. (10 Marks)



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- 7 BB Ltd is a manufacturing company having three production departments namely A, B and C and two service departments X and Y. The following is the budget for Dec. 2014.

	Total	A (₹)	B (₹)	C (₹)	X (₹)	Y (₹)
Direct materials		1,000	2,000	4,000	2,000	1,000
Direct wages		5,000	2,000	8,000	1,000	2,000
Factory rent	4,000					
Power	2,500					
Depreciation	1,000					
Other overheads	9,000					
Add Information :						
Area (Sq. foot)		500	250	500	250	500
Capital value of assets (₹ laks)		20	40	20	10	10
Machine hours		1,000	2,000	4,000	1,000	1,000
Horse power of machines		50	40	20	15	15

A technical assessment of the apportionment of expenses of service dept is as under :

Service dept X	45%	15%	30%	10%
Service dept Y	60%	35%	5%	-

- Required : 1) A statement showing distribution of overheads to various depts..
 2) A statement showing re-distribution of service dept expenses to production depts. under Simultaneous equation method. (10 Marks)

SECTION - D

CASE STUDY - [Compulsory]

ABC Ltd is currently operating at 75% of its capacity. In the past two years the level of operations were 55% and 65% respectively. Presently, the production is 75,000 units. The company is planning for 85% capacity level during 14-15. The cost details are as follows :

Particulars	55% (₹)	65%(₹)	75%(₹)
Direct Materials	11,00,000	13,00,000	15,00,000
Direct Labour	5,50,000	6,50,000	7,50,000
Factory overheads	3,10,000	3,30,000	3,50,000
Selling overheads	3,20,000	3,60,000	4,00,000
Administrative overheads	1,60,000	1,60,000	1,60,000
	24,40,000	28,00,000	31,60,000

Profit is estimated @ 20% on sales. The following increase in cost are expected during the year.

Particulars	% (percentage)
Direct materials	8
Direct labour	5
Variables factory overheads	5
Variable selling overheads	8
Fixed factory overheads	10
Fixed selling overheads	15
Administrative overheads	10

Prepare a flexible budget for the period 14-15 @ 55% capacity level and ascertain the profit on sales. (20 Marks)
