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14MBAFM305

**Third Semester MBA Degree Examination, June/July 2017**  
**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 do you understand by the term "Break Even Analysis"? (03 Marks)
- 2 What is variance analysis? (03 Marks)
- 3 What is segmental Reporting? (03 Marks)
- 4 List out the tools and technique for cost reduction. (03 Marks)
- 5 What is flexible budgeting? (03 Marks)
- 6 What is over head? (03 Marks)
- 7 What do you understand by the term "strategic view to cost management"? (03 Marks)

**SECTION - B***Note : Answer any FOUR questions from Q.No.1 to Q.No.7.*

- 1 Explain the activity based costing technique and compare it with traditional costing methods with its associated advantages. (07 Marks)
- 2 What are the advantages and disadvantages marginal costing? (07 Marks)
- 3 What is meant by Target costing? Explain its process and its advantages. (07 Marks)
- 4 What is meant by Budgetary control and standard costing? How does standard costing system help in Budgetary control? (07 Marks)
- 5 M/s Quality Food products Ltd has prepared the following sales budget for the first five months of 2016. (07 Marks)

Sales budges ( in units)

January	10,800
February	15,600
March	12,200
April	10,400
May	9,800

The inventory of finished produces at the end of every month is to be equal to 25% of the sales estimate for the month. On January 1, 2016, there were 2700 units of product in hand. There is no work in process at the end of any month.

Every unit of product requires material 'A' 4 units materials equal to one half of the next months. Production are to be on hand at the end every month. This requirement was met on 1<sup>st</sup> January, 2016. Prepare a materials requirement budget for the first quarter of 2016 in a logical form showing the quantities of material A to be purchased.

- 6 Categorize the following expenses into fixed, variable and semi-variable (detailed working to be shown) (07 Marks)

Production (units)	55,000	65,000	75,000
Wages. ₹	5,50,000	6,50,000	7,50,000
Factory Exp. ₹	3,10,000	3,30,000	3,50,000
Selling Exp. ₹	3,20,000	3,60,000	4,00,000
Office Exp. ₹	1,60,000	1,60,000	1,60,000
General Exp. ₹	5,50,000	6,50,000	7,50,000



- 7 The standard material required to manufacture one unit of product X is 10kgs. Standard price per KG of material is ₹ 25.

The cost accounts records, however reveal that 11,500 kgs of material costing ₹ 2,76,000 were used for manufacturing 1000 units of product X.

Calculate :

- Material cost variance
- Material price variance
- Material usage variance.

(07 Marks)

### SECTION - C

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

- 1 Following information has been obtained from the records of XYZ Co. Ltd.,

	1.1.2015	31.12.2015
Stock of Raw materials (₹)	40,000	50,000
Stock of finished goods (₹)	1,00,000	1,50,000
Stock of work in progress (₹)	10,000	14,000

Transactions during the year

Indirect labour	50,000	Carriage outward	20,000
Lubricants	10,000	Power	30,000
Insurance on plant	3,000	Direct labour	3,00,000
Purchase of Raw materials	4,00,000	Depreciation on machinery	50,000
Sales commission	60,000	Factory rent	60,000
Salaries of salesmen	1,00,000	Property tax on factory building	11,000
Administration expenses	1,00,000	Sales	12,00,000

Prepare a statement of cost and profit showing:

- |                                   |                        |                              |
|-----------------------------------|------------------------|------------------------------|
| (a) Cost of raw material consumed | (b) Prime cost         | (c) Total manufacturing cost |
| (d) Factory manufacturing cost    | (e) Cost of production | (f) Cost of goods sold       |
| (g) Cost of sales and             | (h) Profit             |                              |

(10 Marks)

- 2 The following data is given :

(10 Marks)

	₹
Selling price	20 per unit
Variable manufacturing cost	11 per unit
Variable selling cost	3 per unit
Fixed factory overhead	5,40,000 per year
Fixed selling cost	2,52,000 per year

Your are required to compute :

- Breakeven point in amount of sales in Rupees and units
- Number of units that must be sold to earn a net income of 10% sales
- Number of units that must be sold to earn a profit of ₹ 60,000 per year



3 A company manufacturing two products furnishes the following data for a year

Products	Annual output (units)	Total machine hours	Total number of purchase orders	Total number of setups.
A	5,000	20,000	160	20
B	60,000	1,20,000	384	44

The annual overheads are as under

	Rs.
Volume related activity cost	5,50,000
Set up related costs	8,20,000
Purchase related costs	6,18,000

You are required to calculate the cost per unit of each product A and B based on :

- i) Traditional method of charging overheads
- ii) Activity based costing method.

(10 Marks)

4 Ph Ltd, is a manufacturing company having three production departments A, B and C and two service departments X and Y. The following is the budget for March 2016.

Particulars	Total ₹	A ₹	B ₹	C ₹	X ₹	Y ₹
Direct material	10,000	1,000	2,000	4,000	2,000	1,000
Direct wages	18,000	5,000	2,000	8,000	1,000	2,000
Factory rent	4,000					
Power	2,500					
Depreciation	1,000					
Other over heads	9,000					
Additional information						
Area SQ. M		500	250	500	250	500
Capital value of assets ₹ lakhs		20	40	20	10	10
M/C hours		1,000	2,000	4,000	1,000	1,000
H.P of M/Cs		50	40	20	15	25

A technical assessment of the apportionment of expenses of service departments is as under

	A	B	C	X	Y
Dept X	45%	15%	30%	-	10%
Dept Y	60%	35%	-	5%	-

Required

- i) A statement showing distribution of overhead to various service departments
- ii) Statement showing redistribution of service departments expenses to production departments
- iii) Machine hour rates of production departments A, B and C.

(10 Marks)

5 What is the difference between cost audit and financial audit? How does cost audit help a firm to improve the productivity of a firm? (10 Marks)

6 Explain the features of Balance score Card as a performance measure. Illustrate the same with relevant diagram. (10 Marks)



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7 From the budgeted figures of M/s Mysore soap factory (10 Marks)

Estimated factory overheads = ₹ 58,000  
Estimated labour cost = ₹ 97,000  
Estimated direct labour hour = 1,34,600  
Estimated machine hour = 29000 hrs.

a) Prepare normal overhead application rates using

i) Direct labor hour method ii) Direct labour cost method iii) Machine hour rate method.

b) Prepare a comparative statement of cost, showing the result of application of each of the above rates to Batch No 415 based on the data given below.

Direct material consumed = ₹ 84  
Direct labour cost = ₹ 30  
Direct labour hours = 30  
Direct machine hours = ₹ 20

#### SECTION - D

#### **CASE STUDY – [ Compulsory ]**

Mahindra Co. Ltd is working at 50% capacity and produces 10,000 units. At 60% working, raw material cost increases by 2% and selling price falls by 2%. At 80% working, raw materials cost increase by 5% and selling price falls by 5%.

At 50% capacity working, the product cost is Rs 180 per unit and is sold at Rs 200 per unit. The unit cost of 180 is made up as follows :

Material ₹ 100 Factory overheads ₹ 30 (40% fixed)  
Wages ₹ 30 Administration O.H ₹ 20 (50% fixed)

Prepare a Marginal cost statement showing the estimated profit of the business. Also comment on the behaviour of fixed and variable cost.

Note : the statement should be for 50%, 60% and 80% capacity level.

(20 Marks)

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