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12MBAFM324

**Third Semester MBA Degree Examination, Dec.2014/Jan.2015**  
**Cost Management**

Time: 3 hrs.

Max. Marks:100

**Note: 1. Answer any THREE questions from Q.No. 1 to Q.No. 6.**  
**2. Question No. 7 and 8 are compulsory.**

- 1 a. What is Flexible budgeting? (03 Marks)  
 b. What is Cost Management? What are its merits? (07 Marks)  
 c. A Company's production costs for the year ending 30/6/2007 are given below :

	Production Center			Service Center		
	P <sub>1</sub>	P <sub>2</sub>	P <sub>3</sub>	Office	Stores	Workshop
Direct wages	20,000	25,000	30,000	-	-	-
Direct Materials	30,000	35,000	45,000	-	-	-
Indirect Materials	2,000	3,000	3,000	1,000	2,000	2,000
Indirect wages	3,000	3,000	4,000	10,000	10,000	5,000
Area (sq. mtrs)	200	250	300	150	100	250
Book value of machinery	30,000	35,000	25,000	-	-	15,000
HP of Machinery	15	20	25	-	-	5

Common Expenses :

Rent – 12,500 ; Insurance 1050 ; Depreciation 15% of value of machinery ; Power 3800 , lighting 1250. You are required to prepare an overhead analysis sheet for the company. (10 Marks)

- 2 a. Distinguish between imputed cost and out of pocket cost. (03 Marks)  
 b. What is cost control? What are its merits? (07 Marks)  
 c. A Factory is having three production depts. : A, B & C and two service departments. Boiler house. Pump room. The boiler house has to depend upon pump room for supply of water and pump room in its turn is dependent on the boiler house for supply of driving the pump. The expenses incurred by the production & service departments during the period are : A = ₹ 8,00,000 B = ₹ 7,00,000 C = ₹ 5,00,000. Boiler house = ₹ 2,34,000 Pump room = ₹ 3,00,000. The expenses of the boiler house and pump room are apportioned to the production depts as the following basis.

	A	B	C	Boiler	Pump room
Exp. of Boiler house	30%	40%	20%	-	10%
Exp. of Pump room	40%	20%	20%	20%	-

Show clearly as to how the expenses of boiler house and pump room would be apportioned to A, B and C departments. Use algebraic (simultaneous) equation. (10 Marks)

- 3 a. What is Variance Analysis? (03 Marks)  
 b. What is Overhead? Explain classification of overheads. (07 Marks)  
 c. A manufacturing company produces one type of product and the following information is available : Budgeted output & Sales 6000 units ; Budgeted sales ₹ 2,40,000 ; Variables cost ₹ 30 p.u. ; Budgeted fixed cost ₹ 40,000. You are required to calculate :  
 i) Budgeted profit ii) BEP in terms of units and sales volume iii) Expected profit / loss at sales volume of 3000 , 5000 & 7000 units iv) Margin of safety in terms of % of budgeted output v) The No. of units which need to be sold to earn a profit of ₹ 15,000. (10 Marks)

Important Note : 1. On completing your answers, compulsorily draw diagonal cross lines on the remaining blank pages.  
 2. Any revealing of identification, appeal to evaluator and /or equations written eg. 42+8 = 50, will be treated as malpractice.

- 4 a. Distinguish between Differential cost analysis costing and Marginal costing. (03 Marks)  
 b. What is Activity Based Costing? What are its benefits? (07 Marks)  
 c. The standard cost of a chemical mixture is as follows :  
 40% materials A @ ₹ 20 per kg ; 60% material B @ ₹ 30 per kg.  
 A standard loss of 10% of input is expected in production. The cost records of a period showed the following usage :  
 90 kg of material A @ a cost of ₹ 18 per kg ; 110 kg of material B at a cost of ₹ 34 per kg.  
 The quantity produced was 182 kg of good product. Calculate  
 i) MPV ii) MCV iii) MUV. (10 Marks)

- 5 a. What is Segmental Reporting? (03 Marks)  
 b. What is Target Costing? What are its merits? (07 Marks)  
 c. M/S MST Ltd., has collected the following data for its two activities. If calculates activity cost rates based on cost driver capacity.

Activity	Cost Driver	Capacity	Cost
Power	KWT	50,000 KWh	₹ 2,00,000
Quality Inspection (QI)	No	10000	₹ 3,00,000

The company makes three products M, S & T. For the year ended 31/3/2009, the following consumption of cost drivers was reported :

Products	Kwh	QI
M	10,000	3,500
S	20,000	2,500
T	15,000	3,000

- Required : i) Calculate cost allocated to each product from each activity.  
 ii) Calculate cost of unused capacity for each activity. (10 Marks)

- 6 a. What is Balanced Score Card? (03 Marks)  
 b. What is BEP? What are its assumptions? (07 Marks)  
 c. What is Marginal costing? What are its applications? Elucidate. (10 Marks)
- 7 a. Calculate Fixed cost from the following data : (05 Marks)

Years	Sales	Profit
2001	20,00,000	2,00,000
2002	30,00,000	4,00,000

- b. Given Sales ₹ 1,00,000 ; Fixed cost ₹ 40,000 & loss ₹ 10,000. Calculate P/V Ratio and variable cost ratio. (05 Marks)  
 c. Categorise the following expenses into fixed, variable and semi – variable. (05 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.	2% of sales		

- d. Following are the basis of apportionments given in a situation :  
 Direct wages, Direct material cost, No. of employees, Horse power, Light points , Asset value & Floor area. Choose the most equitable basis of apportionment for the following overheads : i) Stores overheads ii) Motive power iii) Labour welfare iv) Repairs & maintenance v) General overheads. (05 Marks)

**8 CASE STUDY :**

The following data are available in a Manufacturing Co. for a yearly period :

Fixed Expenses & Wages & Salary	9.50 lakh
Rent, Rates and Taxes	6.60 lakh
Depreciation	7.40 lakh
Admin. Exp	6.50 lakh
Semi – Variable Exp. @ 50% capacity	
Maintenance & Repair	3.50 lakh
Indirect labour	7.90 lakh
Sales dept salary	3.80 lakh
Sundry Admn. Salary	2.80 lakh
Variable Exp. @ 50% capacity	
Material	21.70 lakh
Labour	20.40 lakh
Other Exp.	7.90 lakh

Assume that the fixed expenses remain constant for all levels of production. Semi – variable expenses remain constant between 45% & 65% of capacity, Increasing by 10% between 65% & 80% capacity and by 20% between 80% & 100% capacity.

Sales at various levels are :

50% capacity	₹ 100 lakh
60 % capacity	₹ 120 lakh
75 % capacity	₹ 150 lakh
90% capacity	₹ 180 lakh
100 % capacity	₹ 200 lakh

Prepare a flexible budget for the year and forecast profit at 60%, 75%, 90% and 100% capacity. (20 Marks)

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