72574

Reg. No.

III Semester M.Com. Degree Examination, February/March - 2026

COMMERCE

Strategic Cost Management - I

(CBCS Scheme)

Time : 3 Hours **Maximum Marks : 70**

SECTION - A

Answer any **Seven** questions out of Ten. Each question carries **Two** marks. **(7×2=14)**

1. a) How does cost classification support effective managerial decision-making?

   b) Distinguish between cost control and cost reduction in cost management.

   c) Why is overhead absorption a limitation under traditional costing systems?

   d) How do cost drivers improve cost allocation in Activity Based Costing?

   e) Define Lean Cost Management.

   f) How does Life Cycle Costing assist in long-term cost planning?

   g) What is the significance of the experience curve in product life cycle costing?

   h) Why is Just-In-Time (JIT) both a cost-saving and risk-prone system?

   i) How does Kaizen costing promote continuous cost improvement?

   j) Why is benchmarking considered an effective tool in strategic cost management?

SECTION - B

Answer any **Four** questions out of Six. Each question carries **Five** marks. **(4×5=20)**

2. Highlight the role of cost accounting in strategic planning and management control.

3. Briefly explain the effectiveness of Just-In-Time (JIT) as a tool for cost control and inventory management.

4. Discuss the impact of multiple cost drivers on managerial decision-making under Activity Based Costing.

5. Briefly explain how strategic cost analysis, value analysis, and business process re-engineering contribute to effective cost management.

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6. Relevant particulars of a product are:

Direct material cost	50%
Direct wages	20%
Overheads	30%
Selling price	Rs. 80,000

It is anticipated that next year the direct materials and direct labour cost will increase by 20% and 25% respectively. The effect of the increase in costs will cause a reduction of 25% in the amount of profit.

Calculate the selling price required to be fixed for next year to earn the same percentage of profit on selling price as at present.

7. Examine how Kaizen costing influences employee involvement and organizational culture.

SECTION - C

Answer any **Two** questions out of Four. Each question carries **Twelve** marks. **(2×12=24)**

8. Explain the influence of strategic cost management on long-term profitability and competitive positioning of an enterprise.

9. Examine how business process re-engineering contributes to strategic cost reduction and performance improvement.

10. MNO manufactures four products namely A, B, C and D using the same plant and process. Following information relates to product period:

Product	Volume	Material cost per unit	Direct labour per unit	Machine Time per unit	Labour cost per unit
A	500	5	1/2 hour	1/4 hour	3
B	5,000	5	1/2 hour	1/4 hour	3
C	600	16	2 hours	1 hour	12
D	7,000	7	1 1/2 hours	1 1/2 hours	9

Total production overhead recovered by the cost accounting system is analysed under the following headings:

Factory overhead applicable to machine-oriented activity	Rs. 37,425
Set-up costs	Rs. 4,355
Cost of ordering materials	Rs. 1,920
Handling materials	Rs. 7,580
Administration for spare parts	Rs. 8,600

These overhead costs are absorbed by products on a machine hour rate of Rs. 4.8 per hour giving an overhead cost per product of

A = Rs. 1.20; B = Rs. 1.20; C = Rs. 4.80; D = Rs. 7.20

However, investigation into the production overhead activities for the period reveals the following totals:

Product	No. of Setups	No. of Material order	No. of times material was handled	No. of spare parts
A	1	1	2	2
B	6	4	1	5
C	2	1	3	1
D	8	4	12	4
	17	10	18	12

You are required:

1. To compute an overhead cost per product using activity based costing, tracing overheads to production units by means of cost drives; and
2. To comment briefly on the differences disclosed between overheads traced by the present system and those traced by activity based costing.

11. Critically analyse Lean Cost Management as a strategic cost management approach and examine its role in waste elimination, value chain efficiency, and sustainable competitive advantage.

SECTION - D

Answer the following question. This question carries **Twelve** marks. **(1×12=12)**

12. A Machine used on a production line must be replaced at least every four years. The costs incurred in running the machine according to its age are as follows:

	Age of the Machinery (in years)				
Particulars	0	1	2	3	4
Purchase price	3,000	-	-	-	-
Maintenance	-	800	900	1000	1,000
Repairs	-	-	200	400	800
Net Realisable Value	-	1,600	1,200	800	400

Further replacement will be identical machines with same costs. Revenue is unaffected by the age of the machine. The cost of capital is 15%. Determine optimum replacement cycle.

Present value factors at 15% for years 1, 2, 3 and 4 are 0.8696, 0.7561, 0.6575 and 0.5718 respectively.

Present value of annuity at 15% for year 1, 2, 3 and 4 are 0.8696, 1.6257, 2.2832 and 2.8550 respectively.