

Answer Key

Programme : M. Com Corporate Secretaryship	Batch : 2025-2026	Semester : II
Course Title : Strategic Cost Management	Course Code : 24PCMCS104	
Duration : 3 Hrs	Maximum Marks : 75	

SECTION – A (10 × 1 = 10 Marks)

1. **Objective of Strategic Cost Management**
To reduce and manage costs strategically to achieve long-term competitive advantage.
2. **Quality Cost**
Cost incurred to ensure products meet quality standards, including prevention, appraisal, and failure costs.
3. **Lean System**
A production system focused on eliminating waste and improving efficiency.
4. **Cost Reduction**
Permanent reduction in unit cost without affecting quality.
5. **Learning Curve**
The principle that labour cost per unit decreases as production experience increases.
6. **Life Cycle Costing**
A method of costing that considers total cost over the product's entire life cycle.
7. **Basis of Overhead Allocation under ABC**
Activities and cost drivers.
8. **Cost Driver**
A factor that causes a change in the cost of an activity.
9. **Pricing Based on Opportunity Cost**
Pricing that considers the value of the next best alternative foregone.
10. **Purpose of Negotiated Transfer Pricing**
To allow divisions to agree on a mutually beneficial transfer price.
11. **Minimum Support Price (MSP)**
The minimum price fixed by the government to protect producers from price fall.
12. **One Feature of IT Sector**
High dependence on skilled human capital.

SECTION – B (5 × 5 = 25 Marks)

13. Strategic Cost Management & Competitive Advantage

Aligns cost structure with business strategy; Improves value chain efficiency; Enhances customer value; Supports long-term profitability; Strengthens market positioning.

14. Pareto Analysis in Cost Management

Based on 80:20 rule; Identifies vital few cost items; Focuses managerial attention on critical areas; Improves cost control effectiveness.

15. Apex Ltd – Overhead Calculation

(a) Traditional Costing Method

Total process cost = ₹1,80,000

Total labour hours:

P = 5,000 × 3 = 15,000 hrs

Q = 7,000 × 2 = 14,000 hrs

Total = 29,000 hrs

Overhead rate = 1,80,000 / 29,000 = ₹6.21 per hour

P = 15,000 × 6.21 = ₹93,150

Q = 14,000 × 6.21 = ₹86,850

(b) Activity Based Costing

Order Processing Cost per Order

50,000 / (120 + 280) = 50,000 / 400 = ₹125

P = 120 × 125 = ₹15,000

Q = 280 × 125 = ₹35,000

Machine Processing Cost per Machine Hour

1,30,000 / (4,800 + 6,200) = 1,30,000 / 11,000 = ₹11.82

P = 4,800 × 11.82 = ₹56,736

Q = 6,200 × 11.82 = ₹73,284

Total Overhead under ABC

P = 15,000 + 56,736 = ₹71,736

Q = 35,000 + 73,284 = ₹1,08,284

16. Transfer Price

Cost per unit = ₹800

20% on cost = 800 × 20% = ₹160

Transfer Price = ₹800 + ₹160 = **₹960**

17. Agriculture Sector – Cost Structure & Tools

Cost Structure: Seed cost; Fertiliser cost; Labour cost; Irrigation cost

Performance Tools: Cost per hectare; Yield analysis; Budgetary control; Variance analysis.

18. Cost Control vs Cost Reduction

Basis	Cost Control	Cost Reduction
Nature	Preventive	Corrective
Objective	Maintain standards	Reduce cost permanently
Example	Budgetary control	Process reengineering

19. Significance of Transfer Pricing

Evaluates divisional performance; Promotes autonomy; Ensures goal congruence; Facilitates resource allocation

SECTION – C (4 × 10 = 40 Marks)

20. Strategic Cost Management

Meaning: Application of cost management techniques aligned with strategic objectives.

Importance: Supports competitive strategy; Enhances cost leadership; Improves profitability; Facilitates value chain analysis; Assists in strategic decision making.

21. Life Cycle Costing

Stages: Introduction – R&D cost; Growth – Marketing & distribution; Maturity – Cost control; Decline – Disposal cost

Strategy: Early cost planning; Target costing; Value engineering

22. Benefits & Limitations of ABC

Benefits: Accurate product costing; Better overhead allocation; Improved decision making

Limitations: Complex; Expensive to implement; Requires detailed data

23. Cost Driver Rates

Activity	Cost	Volume	Rate
Material Procurement	6,00,000	1,200 orders	₹500 per order
Material Handling	4,80,000	2,400 movements	₹200 per movement
Setup Cost	7,20,000	600 setups	₹1,200 per setup
Quality Control	5,00,000	1,000 inspections	₹500 per inspection
Maintenance	9,00,000	3,000 hrs	₹300 per hour

24. Transfer Price Calculation

Total Cost

Product A:

Prime = 90,000

Variable OH = 30,000

Fixed = 60,000

Total = 1,80,000

Cost per unit = $1,80,000 / 18,000 = ₹10$

Product B:

Total = 1,90,000

Cost per unit = $1,90,000 / 30,000 = ₹6.33$

(i) 25% Profit on Cost

$A = 10 + 25\% = 10 + 2.5 = ₹12.50$

$B = 6.33 + 25\% = ₹7.91$

(ii) 20% Profit on Transfer Price

Formula:

Transfer Price = $\text{Cost} / (1 - 0.20)$

$A = 10 / 0.80 = ₹12.50$

$B = 6.33 / 0.80 = ₹7.91$

25. Cost Management in IT Sector

Importance:

- Project costing
- Activity-based costing
- Time-driven costing
- Benchmarking
- Performance metrics (ROI, cost per project)

Software firm uses ABC to allocate support costs to projects based on hours consumed.