**Strategic Cost Management**

**April 2023 Examination**

**1. A Factory produces 3 types of moulds. While producing, for switching over from one mould to another, there is a shift-over process involved. Costs incurred are as follows: Shift-over costs Rs. 50,000**

**Factory Overheads Rs. 1,00,000/- Packing costs Rs. 20,000/-**

**Engineering Costs Rs. 30,000/- Supervisor Costs Rs. 10,000/-**

**Quantity produced A- 1000, B – 2000, C- 4000**

**Allocate the costs to the 3 moulds (A,B and C) using Traditional Costing method and**

**Activity Based Costing. Make assumptions as may be needed for cost drivers.**

**Compare the results and discuss. (10 Marks)**

**Ans 1.**

**Introduction**

Manufacturing or production can be described as processing parts or raw materials into final items through equipment, machinery, human labor, and chemical processing.

Manufacturing helps businesses to promote very last or finished goods at a higher price than the cost of unfinished goods or raw materials. Powerful production techniques enable producers or producers to take benefit of scale economies, manufacturing more excellent units at a decreased cost. Large-scale manufacturing units involve products to be produced in huge numbers using advanced technologies and It is only half solved

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**2. What is Life Cycle Costing? Explain in brief. What are its Stages? Briefly explain each stage. What are the 4 stages of a Product Life Cycle?**

**For each of the following, mention the nature of cost incurred (Low, Medium, High) over each phase.**

**Research and Development**

**Sales Discounts**

**Maintenance and After Sales service**

**Advertisements (10 Marks)**

**Ans 2.**

**Introduction**

Life cycle costing is a method that provides all expenses or prices that a company or character will incur over the life span of the mission, asset, funding, etc. It involves the initial funding (non-recurring price) and further investment such as upkeep, operating costs, enhancements, and restoration.

Life cycle costing is known as whole lifestyle costing. Its purpose is to permit control to determine whether or not to accumulate an asset or move ahead with a mission. Management usually evaluates the value of ownership and operating charges and selects the purchase with the

**3a. Following are the Budgeted figures of PQR Ltd.**

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **UoM** |  |  |
| **Raw Material** | **Rs. Per Unit** | **50** |  |
| **Wages** | **10** |  |
| **Direct Expenses** | **20** |  |
| **Fixed Overheads** | **Rs.** | **100000** |  |
| **Variable Overheads** | **Rs. Per Unit** | **10** |  |
| **Selling & Distribution Expenses** | **3** | **20 % is Fixed** |
| **Administrative Expenses** | **Rs.** | **50000** |  |
| **Sales Price** | **Rs. Per unit** | **130** |  |

**Capacity of the Factory is 10000 units. However due to Covid, the production capacity for the year was reduced to 80%.**

**Prepare a Budget for the factory in Normal and Covid situation. (5 Marks)**

**Ans 3a.**

**Introduction**

Covid-19 became a tough time for factories and manufacturing units. There were lockdowns all over the international, and people could not keep their production activities. Although manufacturing sports continued after the lockdowns, the environment was no longer equal. As worldwide flights were not flying, the imported raw cloth was expensive due to much less

**3b. With the following information, prepare the Budgeted Profit for the year for Company XYZ.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **UoM** | **A** | **B** | **C** |
| **No. of Units** | **Nos.** | **20** | **30** | **40** |
| **Sales Price** | **Rs./Unit** | **100** | **50** | **25** |
| **Variable Costs** | **Rs./Unit** | **40** | **20** | **5** |
| **Fixed Costs** | **Rs.** | **1,80,000** | | |

**Assuming that the mentioned production numbers are at 100% capacity, under what situation would XYZ ltd. create a flexible budget (suggest any one). What benefit would it**

**provide to the management of the company? (5 Marks)**

**Ans 3b.**

**Introduction**

The term budget may be described as an estimation of expenses and revenue over a certain destiny period and is usually compiled and re-evaluated periodically. Budgets may be planned for any company that desires to spend money, including businesses, governments, families, and people at any earnings