



**THE CATHOLIC UNIVERSITY OF EASTERN AFRICA**  
**A. M. E. C. E. A**

P.O. Box 908  
30100 Eldoret - Kenya  
Telephone: 0728458276  
Fax: 254-20-891084  
Email: academics@cuea.edu

**GABA CAMPUS – ELDORET**  
**MAIN EXAMINATION**  
**SEPTEMBER – DECEMBER 2021 TRIMESTER**  
**SCHOOL OF BUSINESS**  
**BACHELOR OF COMMERCE**  
**DEPARTMENT OF ACCOUNTING AND FINANCE**  
**CAC 425: STRATEGIC COST MANAGEMENT**

<b>Date:</b> December 2021	<b>Duration:</b> 2 Hours
<b>Instructions:</b> Answer Question <b>ONE</b> and any other <b>TWO</b> Questions	

**QUESTION ONE**

a) Define the following terms.

- i) Strategic cost Management **(3 marks)**
- ii) JIT **(4 marks)**
- iii) Lifecycle costs **(3 marks)**

b) The following data belongs to the manufacturing cost information for January 2021 for a division of ABC plc is as follows:

	<b>Kshs.</b>
<b>Cost incurred in January `</b>	
Purchase of raw materials	1000000
Labour/Wages	200,000
Factory Overheads	300,000

**Activity in January Units**

Finished goods manufactured during the period	30,000 units
Units Sold	29,900

**Standard cost per unit ` shs**

Materials	10
Labor	15
Overhead	<u>9</u>
	<b>34</b>

There were no opening stocks of raw materials, WIP or finished goods. It should be assumed that there are no direct materials variance for the period.

**Required;**

Using Backflush accounting prepare the Journal entries to record the above transactions for the three trigger points and compare using the conventional method of accounting **(12 marks)**

c) Highlight the Three Business strategic approaches with the help of relevant examples. **(8 marks)**

**QUESTION TWO**

a) Explain the advantages of Target costing in organizations. **(4 marks)**

b) A Kitchen appliances manufacturing Company feels that there is a market niche for a microwave with certain new features. Surveying the features and prices of microwaves already in the market, the marketing department believes that a price of shs1050 would be about right for the new microwave. At that price, marketing estimates that the demand will last for 5 years and is estimating the sales for year 1 and 2 as 200units each and 120 units in year2-5.The company wishes to get a markup of 50% on cost.

The lifetime costs estimates are;

Manufacturing cost-sh 600/unit

Design and Development-6,000,000

End of Life cost-3,000,000

**Required;**

i) Compute the target cost to manufacture, sell, distribute, and service one microwave. **(8 marks)**

ii) Compute the lifecycle cost per unit and is the product worth making on that basis? **(4 marks)**

- iii) If it spends kshs 2,000,000 extra on design and development, then the manufacturing cost could reduce. Calculate the maximum manufacturing cost/unit that could be allowed for the company to achieve the required markup. **(4 marks)**

### QUESTION THREE

- a) Highlight FOUR advantages of strategic cost management.to profit making firms **(4 marks)**

b) Company ABC Pvt. Ltd. with two products- Product A and product B have the following data in their cost cards.

	<b>Product A: 'Shs'</b>	<b>Product B: 'shs'</b>
Selling Price:	200	250
Cost of materials:	70	85
Fixed Costs:	20	20
Variable Costs:	60	75
Profit:	50	70

Machine hours- 1 hour per unit 1.5 hours/unit

Demand: 10000 units 8000

Total machine hours available with the Company are 18000 hours. In order to fulfill the entire demand.

#### Required;

- i) Compute the Throughput value for each product **(2 marks)**
- ii) Calculate the optimum production plan and the maximum profit, on the assumption that in the short-term only material costs are variable i.e. using a throughput accounting approach **(8 marks)**
- iii) Calculate the Throughput Accounting ratios and advise the company **(2 marks)**

c) Highlight the rationale for Total quality management and business process re-engineering for profit making firms. **(4 marks)**

#### QUESTION FOUR

a) Discuss four fundamental of benchmarking in organizations.

**(8 marks)**

b) Highlight the key steps/process of Kaizen costing as applied in organizations.

**(6 marks)**

c) XYZ manufacturing company has hired you to calculate the profitability of its three customer types. Here are the revenue and directly traceable cost of each customer type.

	<b>Individual customer</b>	<b>corporates</b>	<b>University</b>	<b>Total</b>
Revenue	600,000	750,000	700,000	2,050,000
Direct Costs	450,000	562,500	525,000	1,537,500

In addition, there are 130,000 in costs that cannot be directly traced to the customer type. You have decided to use activity based costing to allocate the costs to each customer type. Here are the cost pools (along with respective activity base)for the company as a whole.

<b>Activity</b>		<b>Cost pool</b>	<b>Activity Base</b>
<b>Quantity</b>			
Ordering cost	80,000	Number of Customer orders	40,000
Product design cost	20,000	Number of product designs	400
Customer design service cost	30000	Number of customer complaints	500

#### **Required;**

Calculate the cost and hence the operating profit per unit and operating margin for each customer type and advise XYZ company on the customer to discard giving reasons.

**(6 marks)**

**\*END\***