



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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MAIN EXAMINATION

MAY – JULY 2015 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

REGULAR PROGRAMME

CAC 425: STRATEGIC COST MANAGEMENT

Date: JULY 2015

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions

- Q1. a) Explain THREE areas in which strategic cost management is applied. **(9 marks)**
- b) By use of a well labeled diagram describe the cost management framework. **(7 marks)**
- c) Highlight FOUR implementation enablers of strategic cost management. **(8 marks)**
- d) Highlight THREE differences between Kaizen and traditional costing methods. **(6 marks)**
- Q2. a) Explain FOUR principles of Kaizen costing. **(8 marks)**
- b) A dealer of perishable product earns a profit of sh 3 per kg. If he can sell within two days but earns a loss of sh 2 per kg if fails to do so. The estimated demand for the product and the relative probabilities are given below:

Estimated demand	Probability
0 kgs	5%
1 kg	20%
2kg	40%

3kg	25%
4kg	10%

In order to maximize his profit what should be the quantity of stock that he should hold. **(8 marks)**

- c) Explain target costing method application in the mobile phone manufacturing industry. **(4 marks)**

- Q3. a) The budgeted overheads and cost drivers volume of WATENE LTD are as follows

Cost pool	Budgeted overheads	Cost driver	Budgeted volume
Material procurement	580,000	No. of order	1100
Material handling	250,000	No. of movements	680
Set-up	415,000	No. of setup	520
Maintenance	970,000	Maintenance Hrs	8400
Quality control	176,000	No. of inspection	900
Machinery	120,000	No. of machine hrs	24,000

The company has produced a batch of 2600 components of AX -15 its material cost was 130,000 are labor cost sh 245000. The usage activities of the said batch are as follows:

Material orders 26, maintenance hours 690 materials movements 18 inspection 28, setups 25, machine hours 1800.

Required:

Calculate cost driver rates that are used for tracing appropriate amount of overheads to the said batch and ascertain the cost of components using activity based costing. **(14 marks)**

- b) Highlight the characteristics of the lifecycle costing. **(6 marks)**

- Q4. a) Chap chap Ltd has decided to adapt JIT policy for material. The following effects of JIT policy are identified.

- i To implement JTI the company has to modify its production and material receipt facilities at a capital cost of sh 1000,000.

The new machine will require a cash operating cost sh 108,000 p.a. The capital cost will be depreciated over 5 years.

- ii Raw materials stock holding will be reduced from sh 4000,000 to sh 1000,000.
- iii The company can earn 15% on its long term investments.
- iv The company can avoid rented expenditure on storage facilities amounting to sh 33,000 per annum. Property taxes and insurance amounting to sh 22,000 will be saved due to JIT programmes.
- v Presently there are 7 workers in the store department at a salary of sh 5000 each per month. After implementing JIT scheme only 5 workers will be required in this department. Balance 2 workers employment will be terminated.
- vi Due to receipt of smaller lots of raw materials there will be some disruption of production. The costs of stock outs are estimated at shs 77,000 per annum.

Required:

Determine the financial impact of the JIT policy. Is it advisable for the company to implement JIT system. **(10 marks)**

- b) Describe THREE characteristics of strategic management. **(6 marks)**
- c) Highlight FOUR environmental influence on cost management practices. **(4 marks)**

END