INDIAN INSTITUTE OF MATERIALS MANAGEMENT
Post Graduate Diploma in Materials Management
PAPER No. 15
STRATEGIC COST AND FINANCIAL MANAGEMENT

Dec 2014

Date :17.12.2014 **Max. Marks :100**
Time : 2.00 p.m to 5.00 pm **Duration : 3 Hrs.**

Instructions:

1. The question paper is in three parts
2. Part A is compulsory. Each sub question carries one mark. **Total marks-32**
3. In Part B answer any 3 questions out of 5. Each question carries 16 marks **Total marks-48**
4. Part C is a case study with sub questions and it is compulsory. **Total marks-20**

PART A (32 marks)

(compulsory. Each sub question carry one mark)

Q1. Select the most appropriate answer from the options given below: 8 marks

1. Loss on issue of shares is a/an-
   a. fictitious asset
   b. intangible assets
   c. fixed assets
   d. current asset

2.Under senstivity analysis, the no. of assumptions for which estimation of cash inflows is done is -
   a. 2
   b. 3
   c. 5
   d. 6

3. Purchase of building is -
   a. Non-operating cash flow.
   b. Operating cash flow.
   c. Investment activity.
   d. Finance activity.

4. Debt ratio is calculated by dividing total debt by -
   a. Total sales.
   b.Inventory.
   c.Total liabilities
   d.Total assets.

5. Allocation of canteen cost to various departments is done on the basis of -
   a. Asset value.
   b.Area.
   c.Cost of materials used.
   d. Number of employees.

6. Allocation of insurance expenses to various departments is done on the basis of -
   a. Area
   b. No. Of employees.
   c.Value of assets.
   d. Cost of materials used.

7. The responsibilty of managing Foreign Exchange Managnment Act 1999 is that of -
   a. SEBI
   b. RBI
   c. UTI
   d. SBI

8. The Stock Exchanges in India function under supervision of -
   a. SEBI
   b. SBI
   c. RBI
   d. IFC

Q2.State whether the followiong statements are true or false: 8 marks

a. Scheduled commercial banks are those banks which are included in the first schedule of the RBI act.
b. In an operating lease, usually the lease cannot be cancelled at short notice.
c. Payback period does not ignore cash flows after payback period.
d. RBI does not act as banker to the state governments.
e. Working capital refers to short-term funds to meet operating expenses.
f. Pre-investment planning studies include preparation of master plans.
g. In IRR method, interest rate is an unknown factor.
h. Debenture is an evidencing documemt i.e., long-term promisary note.

Q3. Fill in the blanks with appropriate words: 8 marks

a. Financial leverage ratios are also called ------------ ratios.

b. There are three types of mergers - vertical , conglemorate & --------.

c. Overhead costs are indirect costs that cannot be directly related to a particular service or ------.

d. Dividend payout ratio is dividends per share divided by ------- per share.

e. Compared to government bonds, corporate bonds generally have a higher risk of------------.

f. Financial institutions are allowed to issue CDs for a period between 1 year and upto -------- years.

g. There are only 2 kinds of funds used by a firm, i.e debt and -------.

h. IPO is ------ Public Offering.

Q4. Expand the abbreviations- 8 marks

a. EBDT

b. CRISIL

c. NBFC

d. CARE

e. NSE

f. IRR

g. EBIT

h. DFIs

PART B

(Answer Any Three Questions each question carry 16 marks) 48 marks

Q5. Write short notes on any four - 16 marks

a. Convertible bonds

b. Debentures

c. Transfer pricing

d. DCF technique

e. Cooperative credit

f. RRBs

Q6. 16 marks

a. What is MCV? Discuss the methods of computing MCV.

b. Discuss the role of Reserve Bank of India.

Q.7. **16 Marks**

a Discuss job order cost system. List the steps involved in the process of installation of the job order cost system?

b. Explain Process Costing and Batch Costing.

Q.8 . **16 marks**

a. Explain any 5 most prominent short-term securities available for investment of surplus cash.

b. Discuss the advantages and disadvantages of the technique of Decision Tree Analysis

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Q9. **16 marks**

a. Explain warrants. What are their advantages ?

b. A company is considering the most desirable capital structure. The following estimates of the debt and equity capital (after tax) have been made at various levels of debt-equity mix.

Debt as a %age of total capital employed	***Cost of debt (%)***	***Cost of equity (%)***
0	6	13
10	6	13
20	6	13.5
30	6.5	14
40	7	15
50	7.5	17

Determine the optimal debt-equity mix for the company by caculation of overall cost of capital.

PART- C 20 marks

Q.10. ABC Ltd has under consideration two mututally exclusive projects X & Y for increasing its plant's capacity .. Each project requires net investment of Rs 10,000/- and each project has an economic life of 10 years. The company's cost of capital is 10%. The following pessimistic, most likely and optimistic estimates of the annual cash inflows associated with each project has been made by the Management.

Estimated annual cash inflows	***Projected A (Rs)***	***Projected B (Rs)***
Pessimistic	2000	1000
Most likely	2500	2500
Optimistic	3000	5000

a. Determine the net present value of each project

b. Which project do you consider should be selected by the Management?

Note: The present value factor of an annuity of Rs. 1/- at 10% for 10 years is Rs. 6.145
