



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

**June 2013**

**Date** :12.06.2013  
**Time** : 2.00 p.m to 5.00 pm

**Max. Marks** :100  
**Duration** : 3 Hrs.

**Instructions:**

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

**Total marks-32**  
**Total marks-48**  
**Total marks-20**

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**PART A**

**( 1 x32 = 32 marks)**

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

**8 marks**

1. Treasury bills are the obligations of the Government for period less than
  - a. 1 year
  - b. 2 years
  - c. 5 years
  - d. 3 years
  
2. Under sensitivity analysis, the number of assumptions under which the estimation of the cash inflows of a project is made is:
  - a. 2
  - b. 3
  - c. 4
  - d. 6
  
3. Cross-border lease is one in which the parties are different
  - a. continents
  - b. districts
  - c. countries
  - d. states

4. Debt ratio is calculated by dividing total debts by
  - a. total sales
  - b. total liabilities
  - c. inventory
  - d. total assets
  
5. Allocation of lighting expenses to various departments is done on the basis of:
  - a. Horse power of machines
  - b. Assets value
  - c. No. Of employees
  - d. area
  
6. Issuer of currency is
  - a. SBI
  - b. UTI
  - c. RBI
  - d. ICICI
  
7. Intermediate term loans are usually running for less than
  - a. 5 years
  - b. 3 years
  - c. 7 years
  - d. 9 years
  
8. Capital market is regulated by
  - a. SEBI
  - b. RBI
  - c. IDBI
  - d. UTI

**Q.2. State whether the following statements are true or false:**

**8 marks**

1. Scheduled commercial banks are those banks which have been included in the second schedule of the RBI Act.
2. The maturity period commercial paper in India ranges from 91 days to 180 days
3. Liquidity refers to the ability of a firm to meet its long-term financial obligations

4. In an operating lease, usually the lease cannot be cancelled at short notice
5. ROI is calculated by dividing after-tax earnings by total assets.
6. Dividend payout ratio is calculated by dividing dividends per share by earnings per share
7. Working capital refers to long term funds to meet operating expenses
8. Work-in-progress contains only one side, namely debit side.

**Q.3. Fill in the blanks with appropriate words:**

**8 marks**

1. \_\_\_\_\_ bonds do not have maturity
2. Financial leverage ratios are also called \_\_\_\_\_ ratios.
3. Fixed Assets turnover ratio is calculated by dividing \_\_\_\_\_ by net fixed assets
4. Debt to equity ratio is calculated by dividing total debt by total \_\_\_\_\_
5. Capital market is regulated by \_\_\_\_\_
6. Zero coupon bonds are sold at discounted value and will be given at the \_\_\_\_\_ value after the maturity period
7. Non-banking financial companies function under the regulatory framework of \_\_\_\_\_.
8. Quick ratio is also referred to as \_\_\_\_\_ test ratio

**Q4. Expand the abbreviations**

**8 marks**

1. RRBs
2. CARE
3. CFAT
4. IPO
5. LIFO
6. EBIT
7. IRR
8. CP

**PART B ( any three) ( 16 x3 = 48 marks)**

**Q5. Write short notes on any four -**

**16 marks**

- a. Project planning
- b. Debentures
- c. Process costing
- d. Equity shares
- e. Transfer pricing
- f. Public Debt

**Q6.**

**16 marks**

- a. Discuss the concept and importance of domestic savings
- b. Explain decision tree method. What are its advantages and disadvantages?

**Q.7.**

**16Marks**

- a. What are the factors affecting working capital?
- b. What is MCV? Discuss the methods of computing MCV.

**Q.8 .**

**16 marks**

- a. Explain sensitivity analysis and list out advantages and disadvantages of the technique
- b. Explain any 4 most prominent short-term securities available for investment of surplus cash.

**Q9.**

**16 marks**

- a. Explain the payback period technique of evaluating investment proposals. What are its limitations?
- b. A company is considering expanding its production. It can go either for an automatic machine costing Rs. 2,24,000 with an estimated life of 5 years or an ordinary machine costing Rs. 60,000 having an estimated life of 8 years. The annual sales and costs are estimated as follows-

	<b>Automatic Machine [Rs.]</b>	<b>Ordinary Machine[Rs.]</b>
Sales	1,50,000	1,50,000
<b>Costs:</b>		
Materials	50,000	50,000
Labour	12,000	60,000
Variable overheads	24,000	20,000

Calculate the payback period and advise the management.

Assumptions - Tax rate as 50 percent and scrap value of machine as zero.

## **PART C – Compulsory**

**20 marks**

Q.10.

*Based on the following information of RMZ Co Ltd , estimate the working capital needed to finance a level of activity of 1,10,000 units of production after adding a 10 percent safety contingency:*

	Amount[per unit]
	Rs.
Raw materials	78
Direct Labour	29
Overheads[excluding depreciation]	58
Total Costs	165
Profit	24
Selling price	189

### ***Additional Information***

Average raw materials in stock: One Month

Average materials- in -process(50 percent completion stage): Half a month

Average finished goods in stock: One month

Credit allowed by suppliers:One month

Credit allowed to customers:two months

Time lag in payment of wages : One and a half weeks

Overhead expenses:One month

One fourth of the sales is on cash basis. Cash balance is expected to be Rs. 2,15,000. It may be assumed that production is carried on evenly throughout the year and wages and overhead expenses accrue similarly.

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