INDIAN INSTITUTE OF MATERIALS MANAGEMENT
POST GRADUATE DIPLOMA IN MATERIALS MANAGEMENT

Paper 15
Strategic Cost and Financial Management

Date : 12.06.2009: Max.Marks: 100
Time: 2.00pm To 5.00pm Duration: 3 Hours

Instructions:

1. From Part-A answer all questions (compulsory). Each question carries 8 marks. Total: 32 Marks.
2. From Part B answer any 3 questions out of 5 questions. Each question carries 16 marks. Total: 48 Marks.
3. Part C is a case study (compulsory). Read the case carefully and answer the questions. Total: 20 Marks.

PART A

QI. Choose the right answer from below:

1. Current Ratio is 3:1. Net working capital is Rs.1,60,000. The Current Assets will amount to---
   (a) Rs.4,80,000 (b) Rs.2,40,000
   © Rs.80,000 (d) None of these

2. Annual sales are Rs.100 lakhs, Fixed Cost Rs.20 lakhs and Break-even Point Rs.80 lakhs. Profit would be---
   (a) Rs.5 lakhs (b) Zero
   (c) Rs.10 lakhs (d) Rs.15 lakhs.

3. (a) Increase in fixed assets. (b) Increase in outstanding expenses
   (c) Payment of Income-tax (d) Redemption of debentures
   Which of the above is not an application of funds?

4. Monthly purchases are Rs.1,20,000 for January, Rs.1,20,000 for February and Rs.1,35,000 for March. 20% of the purchases is on cash terms and balance on 30 days credit. The total cash payments for purchases in February and March will be-

   (a) Rs.1,20,000 & Rs.1,23,000 (b) Rs.1,40,000 & Rs.1.23.000
   © Rs.1,50,000 & Rs.1,65,000 (d) Rs.1,32,000 & Rs.1,47,000

5. Sources of financing Project Cost do not include
   (a) Subsidy (b) Deferred Credit
   (c) Leasing (d) Trade Credit

6. Direct labour refers to
   (a) Labour doing mutual work
   (b) Labour recruited directly and not through contractors
   (c) Labour permanently engaged in production department
   (d) Labour that can be conveniently associated with a particular cost object.

7. The rate of return at which the sum of the Present Values of expected Cash Inflows over Project Life is equal to the Investment in the project is known as
(a) Average Rate of Return (b) External Rate of Return
© Internal Rate of Return (d) Optimum Rate of Return

8. P/V Ratio can be improved by
(a) Increasing the quantity of sales (b) Decreasing the Fixed Cost
© Decreasing the Variable Cost per unit. (d) All the above.

Q.II. State whether the following statements are True or False:

1. Commercial paper is a secured Promissory Note issued at a discount.
2. Horizontal Merger takes place when two or more firms engaged in similar line of activity combine together.
3. Prime cost is the sum of direct material and factory overheads.
4. As cash is a highly productive current asset, it should be kept in more quantity at all points of time.
5. By-products are products which have the same economic importance as the Main products.
6. Benefit-Cost Ratio is measured by dividing the total Present Value of future cash inflows by the Initial Investment.
7. Management Accounting is bound by conventions.
8. Over-absorption of overheads arises when overheads incurred are greater than overheads recovered in Cost Accounts.

Q.III. Fill in the blanks:

1. -------------- is the tendency of residual net income to change disproportionately with changes in operating profit.

2. Effective cost of debt is computed after deducting ------------- from interest expense.

3. ------------- costing is the use, by several firms in an industry, of similar costing principles and practices.

4. A -------------- attached to a bond or preferred stock gives the right to the holder to buy specified number of equity shares in the company.

5. ------------ costing, also known as Service Costing is used by firms rendering services.

6. The excess of Actual sales over sales at Break-even point is known as ------------.

7. To compare the financial performance of two or more firms in an industry ------------------- is used by financial analysts.

8. --------------------, also known as Capital Lease, is a type of lease under which all the risks and rewards incidental to Asset ownership are transferred to the lessee.

Q.IV. Match the following:

Statement A	Statement B
1. Conversion cost	(a) Intangible Real Assets.
2. Capitalisation of Profits & Reserves	(b) Debt Equity Mix that maximizes the wealth of the firm.
3. Preference Share Capital	(c) The length of time required to recover the original investment.
4. Patent Rights and Trade Marks	(d) Bonus shares
5. Cash Flow Statement	(e) Contract Costing
6. Optimum Capital Structure	(f) Direct wages plus factory overheads.
7. Building	(g) Fixed rate of dividend.
8. Pay-back period	(h) Operating, Investing and Financing activities.

PART B

Answer any three questions (3 x 16 = 48 marks)

Q.V. (a) The following extracts relate to the year 2007 for Z Ltd.

Detail	**Rs. In lakhs**
PBIT	180
Less: Debenture interest	48
Less; 30% corporate tax	39.60
Profit after tax	**92.40**
Equity share capital (Rs.10 each)	300
Reserves and Surplus	150
16% Non-Convertible Debentures	300

MPS is Rs.14 and Market price of debenture is Rs.95.

(i) Determine EPS.

(ii) Calculate the percentage cost of equity capital and debenture

(b) Explain the following in the context of Responsibility Accounting:

(i) Revenue Centre. (ii) Profit Centre.

Q.VI. (a) What are Financial Statements? Explain the types of Financial Statement Analysis.

(b) The following are Ratios and other information extracted from the Balance Sheet of a company as at 31.3.2008:

Current ratio	2.5
Working Capital	Rs.3,00,000
Liquidity Ratio	1.5
Stock Turnover Ratio (on the basis of cost of sales)	6
Gross profit as percentage of sales	20%
Debt collection period	2 months
Shareholders Capital: Reserves & Surplus	2:1
Reserves and Surplus	Rs.2,50,000
Fixed Assets Turnover (on the basis of cost of sales)	2

You are required to draw up the Balance Sheet of the company as on the above date.

Show your working of various items of the Balance Sheet.

Q.VII. Write short notes on any **four** from the following:
(a) Treatment of over/under-absorption of overheads in cost accounts.
(b) Objectives of Transport Costing,
© Joint Products and By-products.
(d) Objectives of Cash Budget.
(e) Limitations of Inter-firm comparison.
(f) Functions of Finance Manager.
(g) Sources of Credit Information for evaluation of customers.
(h) Financial Intermediation.

Q.VIII. A firm having cost of capital 10% is considering two mutually exclusive projects X and Y, the details of which are as under:

	Project X	Project Y
	Rs.	Rs.
Investment:	78,000	1,00,000
Cash flow year 1	10,000	50,000
Cash flow year 2	20,000	40,000
Cash flow year 3	30,000	35,000
Cash flow year 4	45,000	35,000
Cash flow year 5	60,000	40,000
	1,65,000	2,00,000

Discount factors @ 10%

Year	1	2	3	4	5
Factor	0.909	0,826	0.751	0.683	0.621

Advise the firm as to which project is more profitable using NPV method. Also calculate Profitability Index and give your comments.

Q.IX. X Ltd. wishes to takeover Y Ltd. The financial details of the two companies are as under:

	Company X Ltd.	**Company Y Ltd.**
	Rs.	Rs.
Equity shares (Rs.5 per share)	1,00,000	50,000
Security premium account	----	2,000
Profit and Loss account	38,000	4,000
10% Preference shares	20,000	----
9% Debentures	15,000	5,000
Total	**1,73,000**	**61,000**
Net Fixed assets	1,22,000	35,000
Net current assets	51,000	26,000
Total	**1,73,000**	**61,000**
Maintainable annual profit (after tax) for equity shareholders	24,000	15,000
Market price per equity share	25	29
Price earning ratio	10 times	9 times

What offer do you think X should make to Y in terms of exchange ratio, on the basis of (a) net asset value, (b) earning per share, and (c) market price per share? Which method would you prefer from the point of view of X Ltd?

PART C

Q.X. A product was obtained, after passing through three processes. The following information was collected for January, 2006:

	Process I	Process II	Process III
	Rs.	Rs.	Rs.
Direct material	26,000	19,800	29,620
Direct wages	20,000	30,000	40,000

Additional information:

(a) 1000 units at Rs.30 were introduced in Process-I

(b) There was no stock of materials, or WIP at the beginning, or at the end of that month.

(c) The production overhead was Rs.90,000 for that month, to be apportioned on wages ratio.

(d) The output in units during the month was Process-I: 950; Process-II: 840; Process-III: 750.

(e) The normal loss was:

Process-I	5%
Process – II	10%
Process – III	15%

(f) The value of scrap per unit was:

	Rs.
Process – I	20
Process – II	40
Process – III	50

(i) Prepare the process accounts indicating normal loss, abnormal loss and abnormal gain.

(ii) Indicate the treatment of abnormal loss and abnormal gain in cost accounts.