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

Dec 2013

Date :18.12..2013 **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 **(32x1 = 32 marks)**

Q1.Choose the right answer from below:-

1.Contingent liability is shown as a

a)Current liability

c)Current asset

c)Unsecured loan

d)None of the above

2.Bad debts recovered is

a)Credited to profit and loss account

b)Debited to profit and loss account

c)Reduced from debtors in balance sheet

d)Added to debtors I balance sheet

e)Both b and c above

3.Purchase of Raw materials assets on credit originally recorded in

a)Purchase book

b)Ledger

c)Cash book

d)Journal proper

e)Both b and d above

4.Loss on issue of shares is a/an

a)Fictitious asset

b)Intangible asset

c)Fixed asset

d)Current asset

e)Current liability

5.The portion of acquisition cost of the asset yet to be allocated is known as

a)Written down value

b)Accumulated value

c)Realizable value

d)Salvage value

e)Residual value

6.The asset which is not taken under the net assets method of calculating purchase consideration is

a)Furniture

b)Preliminary expenses

c)Stock

d)Cash

e)debits

7.Purchase of buildings is

a)a non-operating cash outflow

b)operating cash flow

c)investment activity

d)financing activity

8.The management of cash finds

a)a mean between the shortage of cash and idle cash.

b)operational risk

c)transit risk

d)financial risk

Q2.Please state whether following statements are True or False-

1. Bank overdraft is a facility given by the bank to enable the company to buy/manufacture the goods to be exported
2. In case of mortgage, possession of goods is with the bank and the goods mortgaged are in the custody of the bank
3. Bill of exchange is a secured promissory note issued at a discount
4. Internal rate of return of a project is the sum of the present value of all the cash flows associated with it
5. Cost of equity capital provides useful guidelines in determining optimal capital structure of a firm
6. Cost of retained earnings is that part of income which a firm is left with before paying interest on debt capital and dividend to its shareholders
7. Mortgage indicates transfer of legal interest in a specific movable property as security for the payment of debt
8. In case of non-fund based lending, the lending bank do not commits the physical outflow of funds

Q3.Fill in the Blanks

1. Working capital is concerned with the management of -------------
2. ------------------ measures the relationship between net profits and sales of the firm.
3. The ----------------- cost of capital is associated with the raising of funds
4. ------------------ merger takes place when two or more corporate firms dealing in similar lines of activity combine together.
5. Commercial paper refers to short term ------------- promissory note.
6. Gross working capital refers to -------------------
7. ---------------- is based on average annual accounting yield of a project.
8. --------------- is the discount rate at which the aggregate present value of inflows equal the aggregate present values of outflows..

Q.4.Match the following-

Statement A	**Statement B**
1.Receivable management	a. Considers incomes from the project throughout its life
2.ARR	b. Owners' equity
3.Capital budgeting decision	c. An secured promissory note issued at a discount
4.Trade credit	d. Transfer of legal interest in a specific immovable property as security for the payment of debt
5.Commercial paper	e. Purchase of new machine
6.Debenture	f. Trade off between risk & profitability
7.Equity share capital	g. Short term finance
8.Mortgage	h. Acknowledgement of debt due by company to its holders

PART B

(48 marks)

Answer any three questions(16 x3=48 marks)

Q.5. A Company wants to buy a machine. There are two alternative models X and Y whose particulars are-

Particulars	**Model X**	**Model Y**
Cost	Rs.12,00,000	Rs.21,00,000
Life(in years)	5 years	7 years CHANGED TO 5 YEARS

Profit after Depreciation by Straight Line Method before Tax are-

Year	Model X (Rs.)	Model Y (Rs.)
1	1,20,000	1,50,000
2	90,000	1,20,000
3	1,10,000	1,30,000
4	80,000	1,10,000
5	80,000	1,00,000

Tax rate=30%

Calculate:

(1)Pay Back period

(2)Pay Back profitability

(3)Annual Rate of Return

Q6. What do you understand by Merger & Amalgamation? Discuss the SEBI rules & regulation regarding merger & amalgamations.

Q7.Prepare a cash budget for the three months ended 30th September,2008 based on the following information-

Cash at Bank on 1st July,2008-Rs.12,500

Salaries and wages estimated monthly-Rs.5,000

Interest payable-August,2008-Rs.2,500

Month	**Cash Sales Rs.**	**Credit Sales Rs.**	**Purchases Rs.**	**Other Expenses Rs.**
June	---	50,000	80,000	---
July	70,000	40,000	85,000	10,000
August	76,000	70,000	120,000	11,000
September	60,500	60,000	90,000	10,500

Credit sales are collected 50%in the months sales are made and 50%in the month following. Collections from credit sales are subject to 5%discount if payment is received during the month and 2 ½%,if the payment is received in the following month. Creditors are paid either on 'prompt' or 30 days basis. It is estimated that 10%of the creditors are in the prompt category.

Q8.Write short notes on the following(Any four)

1.Operating and financial leverage

2.Project feasibility study

3.Uniform costing

4.Discounted cash flow

5.Financial restructuring

6.Measurement of overall cost of capital

Q9.ABC Garments Ltd manufacturers readymade garments and sells them on credit basis through a network of dealers. Its present sale is Rs.75 Lakhs p.a. with 20 days credit period. The company is contemplating an increase in the credit period with a view to increasing sales. Present variable costs are 80% of sales and the total fixed costs Rs.10 lakhs p.a. The company expects pre-tax return on investment @30%.

Additional information is given as under-

Proposed credit policy	**Average collection period(days)**	**Expected annual sales(Rs.in lakhs)**
I	30	65
II	40	70
III	50	74
IV	60	75

Required-

Which credit policy should the company adopt? Present your answer in a tabular form. Assume 360 days a year. Calculations should be made up to two digits after decimal.

PART C

20 marks

Q10. Compulsory.

From the following Balance Sheet of XYZ Ltd, Compute the following ratios:-

a)Liquid Ratio,

b)Proprietary Ratio,

c)Stock Turnover Ratio,

d)Capital Gearing Ratio,

e)Debtors Turnover Ratio

and offer your comments in brief.

Balance Sheet as on 31st March,2008

Liabilities	**Rs.**	**Assets**	**Rs.**
Preference Share Capital	2,00,000	Fixed Assets	12,00,000
Equity Share Capital	5,00,000	Stock	5,40,000
Reserves	10,00,000	Sundry Debtors	8,00,000
Secured Loans	4,00,000	Advance Income Tax	1,20,000
Current Liabilities	5,40,000	Cash at Bank	7,90,000
Provisions	8,10,000		
TOTAL	**34,50,000**	**TOTAL**	**34,50,000**

Total Sales during the year was Rs.77,76,000(including cash sales Rs.5,76,000)which yielded a gross profit of 25% on sales. The stock on 31st March,2007 was Rs.4,32,000.Assume for your working 360 days for the year.

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