INDIAN INSTITUTE OF MATERIALS MANAGEMENT

June 2013

Post Graduate Diploma in Logistics Management

Paper 1
Management Principles and Business Finance

Date: 08.06.2013 **Max Marks: 100**

Time: 10.00 AM to 1.00 PM **Duration: 3 Hours**

Instructions:

1) Part A1 and A2 are compulsory	Total Marks=32
2) Part B: Answer any three questions with a maximum of two from part B1 or B2	Total Marks=48
3) Part C Compulsory	Total Marks=20

Part :A: 1 (1 x16= 16 marks)

Q.1. Indicate whether the following statements are True or False:

(i) Foreman is a part of Middle Management.

(ii) A business organization cannot exist in a vacuum.

(iii) Strategies and policies are not related to each other.

(iv) Division of work is the first step in building an organizational structure.

(v) A budget is a statement of expected results expressed in monetary terms.

(vi) Job enrichment means increasing an employee's responsibility and control over work.

(vii) Leadership is a special concept and can arise in a particular situation where there is a group of people.

(viii) Innovation is the process of making improvements by introducing something new by therepetitive actions.

Q.2. Match A and B from the following:

Column **A**	Column **B**
1. Strategy	Top Management
2. CEO	Theory of Motivation
3. MBO	Planning as an Intellectual Process
4. Delegation	Policies
5. MC Clellard's	Theory X and Theory Y
6. MC Gregor	Group Efforts
7. Koontz & O'Donnel	Decentralization
8. Co-ordination	Performance Appraisal

Part : A :2: (Finance) (1 x16= 16 marks)

Q.3. Indicate whether the following statements are True or False :-

(i) The debit balance in profit and loss account is shown on the liabilities side of the Balance Sheet.

(ii) Current ratio indicates the short- term solvency of the firm.

(iii) An increase in current liability increases the working capital.

(iv) Share capital is an owned capital.

(v) Depreciation is a capital expenditure.

(vi) Bank overdraft is a source of working capital.

(vii) The Balance sheet is an Account and Profit & Loss Account is an Income Statement.

(viii) All business transactions should be recorded in the books of Accounts.

Q.4. Select the right answer from the following multiple choice answer :

1. The normal Current ratio should be :

(a) 2:1 (b) 1:2 (c) 1.5: 1 (d) 1: 1.5

2. An increase in current assets increases the _________________________.

(a) Fixed capital (b) Working Capital

(c) Long – term Capital (d) Borrowed Capital

3. Use of Equity capital as well as borrowed capital in the capital structure is called ________________.

(a) Sweat Equity (b) Promoter's Equity (c) Trading on Equity (d) Debt – Equity Ratio

4. Goodwill is an intangible __________________________.

(a) Capital (b) Liability (c) Wealth (d) Asset

5. Bank Account is a ___________________ type of Account.

(a) Personal (b) Real (c) Nominal (d) Equal

6. The current Assets less current liabilities is known as ________________ capital.

(a) Floating (b) Working (c) Fixed (d) Owned

7. Dividend paid is a ____________________ expenditure.

(a) Capital (b) Regular (c) Revenue (d) Deferred Revenue

8. Stock Turnover Ratio should be _______________________

(a) Low (b) Medium (c) Ten (d) High

Part : B : 1 – Management Principles :

Answer any three questions with a maximum of two from part B1 or B2 (16 x 3 = 48 marks)

Q.5. "Management is what management does" Explain.

Q.6. What is Business Finance ? What are the sources of Long Term Finance ?

Q.7. Write Short notes on any four :

(a) Job Enrichment

(b) Life Quality Index

(c) MNC's

(d) Theory of Motivation

(e) Communication Technology

(f) Leadership Styles

(g) Authority and Responsibility

Part :B: 2 – Finance

Q.8. Prepare a cash Budget for Jan., Feb.,& March from the following information:

(i) Sales forecast for next 5 months :

January	Rs.40,000
February	Rs.45,000
March	Rs.55,000
April	Rs.60,000
May	Rs.50,000

(ii) Debtors and Creditors balances at the beginning of the year are Rs.30,000 and Rs.14,000 respectively. The balances of other relevant assets and liabilities are :

Cash Balance	Rs.7500
Stock	Rs.51,000
Accrued sales commission	Rs.3500

(iii) 40% of sales are on cash basis. Credit sales are collected in the month following sale.

(iv) Cost of goods sold is 60% of sales.

(v) The only other variable cost is a 5% commission on sales to agents. The sales commission is paid in the month after it is earned.

(vi) Stock is kept equal to sales requirements for the next two months budgeted sales.

(vii) Creditors are paid in the following month after purchases.

(viii) Fixed costs are Rs.5000 per month including Rs.2000 depreciation.

Q.9. The following information is taken from the records of two companies in the same industry

	(Rs.Lakhs)	
Particulars	**X Ltd.**	**Y Ltd.**
Cash	2	3
Debtors	3	7
Stock	12	10
Machinery	18	23
Total	35	43
Creditors	09	10
Debentures	05	10
Equity capital	11	18
Reserve & Surplus	10	05
Total	35	43
Sales	60	85
Cost of goods sold	40	65
Other operating Expenses	08	10
Interest	0.6	1.20
Income Tax	3.4	3.80
Dividend	1.0	2.00

Answer each of the following questions by making a comparison of one or more relevant ratios:

(a) Which company is using the shareholders' money more profitably ?

(b) Which company is better able to meet its current debt. ?

(c) If you want to purchase the debentures of one company, which company's debentures would you buy ?

(d) Which company collects its receivables faster assuming all sales are on credit basis ?

(e) Which company retains larger portion of income in business ?

Part : C: Compulsory 20 marks

Q.10. Honda Ltd is considering the acquisition of Suznki Ltd. Relevant financial information is given below :

Particulars	Honda	Suzuki
Present earnings (Rs.Lakhs)	4000	1000
Equity Shares	20 lakhs	8 lakhs
Earning per share	Rs.2	Rs.1.25
Price / Earning ratio	12	8

Honda plans to offer a premium of 20 percent over the market price of Suzuki Ltd.

(a) What is the ratio of exchange of shares ?

(b) How many new shares will be issued ?

(c) What will be Earning Per Share for the surviving company immediately following the merger ?

(d) If the Price / Earnings ratio stays at 12 times, what will be the Market Price per share of the surviving company ?

(e) What would happen if the price / Earning Ratio goes down to 10 times ?.

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