



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

Dec 2011

Date :14.12.2011
Time : 2.00 p.m to 5.00 pm

Max. Marks :100
Duration : 3 Hrs.

Instructions :

1. From Part A – answer all questions (compulsory). Each sub questions carries 1 mark. **Total : 32 Marks**
2. From Part B – Answer any 3 questions out of 5 questions. Each sub-question carries 16 marks.**Total : 48 Marks**
3. Part C is a case study (compulsory) with questions. Read the case study carefully and answer the questions.
Total: 20 Marks
4. Please read the instructions given in the answer sheet

Part A

Q.1. Choose the right answer from below:

1. Profit maximization objective ignores
 - a) Efficient allocation of resources
 - b) Optimum utilisation of resources
 - c) Maximum social welfare.
 - d) Time factor

2. The stock exchanges in India function under the supervision of-
 - a) IDBI
 - b) SBI
 - c) SEBI
 - d) UTI

3. Allocation of various Rent expenses to various departments is done on the basis of-
 - a) assets value
 - b) area
 - c) no.of employees
 - d) cost of materials used

4. Treasury Bills are the obligations of the government for a period less than-
 - a) 1 year
 - b) 2 years
 - c) 3 years
 - d) 5 years

5. One of the limitations of Interfirm comparisons is-
- Top management secrecy will be lost
 - develops cost consciousness
 - ensures unbiased specialised reporting
 - gets overall view of the industry
6. Net profit margin ratio is After Tax Earnings divided by
- total assets
 - sales
 - stockholder's equity
 - net fixed assets
7. Long term funds do not include-
- debt
 - equity capital
 - preference share capital
 - inter corporate deposits
8. One of the following is a source of funds -
- drawings
 - increase of working capital
 - decrease in working capital
 - funds lost in operations

Q.2. State whether the following are True or False-

- Conglomerate mergers are affected among firms that operate and compete in a similar kind of business.
- Commercial paper can be redeemed before the maturity date.
- Wealth maximisation is also called value maximisation.
- Intercorporate deposits are in the nature of secured deposits.
- compared to government bonds, corporate bonds have a lesser risk of default
- The net present value method is one of the discounted cash flow methods.
- Depreciation policy does not exert an influence on the quantum of working capital
- Both NPV and IRR methods take into consideration the time value of money.

Q.3. Fill in the blanks. Marks (8)

- The Quick Ratio is also referred to as _____ test ratio.
- The current ratio expresses the relationship between the firm's current assets and its current _____.
- Non- Banking Financial Companies function under the Regulatory framework of _____.
- Given the large size of the trades, Debt market is predominantly a _____ market

with dominant institutional investor participation.

- e) Responsibility Accounting is the accounting system of control through which responsibilities are assigned towards the control of _____.
- f) Inter-corporate deposits are usually made for a maximum of _____ months.
- g) Liquidity relates to the ability of the firm to meet its -----financial obligations as and when they fall due .
- h) Perpetual Bonds do not have _____.

Q.4. Give the full-form of the following -

- i) EOQ
- ii) LIFO
- III) ROE
- IV) CFAT
- V) BELR
- VI) NPV
- VII) IRR
- VIII) IPO

PART – B

Q.5. Write short notes on [any four] -

- a] Process Costing
- b] Sensibility Analysis
- c] Project Planning
- d] Regional Rural Banks
- e] Public Debt
- f] Convertible Bonds

- Q.6) (a) Explain the meaning and concept of leasing. Compare Financial Lease and Operating Lease.
(b) Explain Decision Tree method. What are the advantages and disadvantages of the method?

- Q.7. a]What are Mergers? Explain the different types of mergers.
b] Discuss the concept and importance of domestic savings.

- Q.8.a] Explain Financial Leverage ratios and their effects on a company.
b] Explain any four most prominent short- term securities available for investment of surplus cash.

- Q.9.a] Explain the Pay Back 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-

| | Automatic Machine [Rs.] | Ordinary Machine[Rs.] |
|--------------------|--------------------------------|------------------------------|
| Sales | 1,50,000 | 1,50,000 |
| Costs: | | |
| 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

Q.10.

From the following information of BCD Company 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 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. You may assume that production is carried on evenly throughout the year and wages and overhead expenses accrue similarly.
