



INDIAN INSTITUTE OF MATERIALS MANAGEMENT
Post Graduate Diploma in Logistics Management

Dec 2011

Paper 1
Management Principles and Business Finance

Date: 10.12.2011
Time: 10.00AM to 1.00PM

Max Marks: 100
Duration: 3 Hours

Instructions:

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

Total Marks=32
Total Marks=48

Total Marks=20

Part A1

Q1. Indicate whether following statements are True or False

1. Controlling is measuring and correcting individual and organizational performance to ensure that events conform to plans.
2. A budget is a statement of expected results expressed in numerical terms.
3. Decision making is defined as the selection of a course of action from among alternatives.
4. A limiting factor is something that stands in the way of accomplishing a desired objective.
5. Programmed decision is applied to unstructured, novel and ill defined situations of a non recurring nature.
6. Formal organization means the intentional structure of roles in a formally organized enterprise.
7. Splintered authority exists wherever a decision made without pooling the authority of two or more managers.
8. Vocational tests are designed to show a candidate's most suitable occupation.

Q2.Match A & B from the following-

| A | B |
|-----------------------------|---|
| 1.Henry Fayol | 1.Best ratio of benefits and costs |
| 2.Rules | 2.Specific required actions or non-actions |
| 3.Business portfolio matrix | 3.Father of modern operational management theory |
| 4.Cost effective analysis | 4.Emphases group thinking |
| 5.Phase in creative process | 5.Boston consulting group |
| 6.Brain storming | 6.Intuition |
| 7.Re-engineering | 7.Line and staff relationship |
| 8.Scalar principle | 8.Fundamental rethinking and radical redesign of business process |

Part A2-Finance

Q3. Indicate whether following statements are True or False-

1. Manufacturing account indicates cost of goods manufactured
2. A transaction which increases the capital is called 'income'
3. Liquidity ratios analyses the business of the organization in the long run
4. Balance sheet is a statement of financial position
5. An account has two sides called asset and liability
6. An increase in expenses is recorded on debit side of an expense account
7. An increase in current assets increases working capital
8. Accounting records only those transactions and events which are of financial character

Q 4 . Match Statement A & B from the following-

| Statement A | Statement B |
|-----------------------------------|---|
| 1.Net working capital | 1.Net profit after tax/Number of equity shares |
| 2.Activity ratio | 2.Measuring the efficiency in asset management |
| 3.Earning per share | 3.Increases by profits |
| 4.Sundry debtors | 4.Quick ratio |
| 5.Share capital | 5.Increase in Working Capital |
| 6.Liquidity ratio | 6.Excess of current assets over current liabilities |
| 7.Decrease in Current Liabilities | 7.Equity financing to small and often risky businesses in return for a share in ownership of the firm |
| 8.Venture capital | 8.Current asset |

Part B1-Management principles

Q5 “Planning is looking ahead and control is looking back”. Comment

Q6.What are the limitations of financial ratios as the technique for appraising the financial position of a company?

Q7-Short notes-(any four)

1. McCELLAND’S needs theory of motivation
2. Job Enrichment
3. Grid dimensions
4. Transformational leaders
5. Characteristics of groups
6. Upward communication
7. Business to business (B2B)

Part B2-Finance

Q8. Prepare a cash budget for the three months ended 30th September, 2003 based on the following information-

Cash at Bank on 1st July, 2011-Rs. 12,500

Salaries and wages estimated monthly-Rs. 5,000

Interest payable-August, 2011-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.

Q9. Company X wishes to take over company Y. The financial details of the two companies are as under- (Figures in Rupees)

| | Company X | Company Y |
|--|-----------|-----------|
| Equity shares(rs.10 per share) | 1,00,000 | 50,000 |
| Share premium account | - | 2,000 |
| Profit and loss account | 38,000 | 4,000 |
| Preference shares | 20,000 | - |
| 10% Debentures | 15,000 | 5,000 |
| | 1,73,000 | 61,000 |
| Fixed assets | 1,22,000 | 35,000 |
| Net current assets | 51,000 | 26,000 |
| Maintainable annual profits(after tax) for equity shareholders | 24,000 | 15,000 |
| Market piece per equity share | 24 | 27 |
| Price earning ratio | 10 | 9 |

What offer do you think company X could make to company Y in terms of exchange ratio, based on (a)Net asset value,(b)Earnings per share, and (c) market price per share? Which method would you prefer from company X's point of view?

Part C-Case study compulsory

Q10 from the following details , Prepare the Balance Sheet of the ABC ltd

| | |
|----------------------------|----------|
| Stock velocity/turnover | 6 |
| Capital turnover ratio | 2 |
| Fixed asset turnover ratio | 4 |
| Gross profit | 20% |
| Debt collection period | 2 months |
| Credit collection period | 73 days |

The gross profit was Rs.60,000 closing stock was Rs.5,000 in excess of opening stock.
