International Institute of Health Management Research
Financial Management (CC-611)
Supplementary Examination 2018-20

Time: 3 hours
Max. Marks : 100

I. Answer any four questions: (4 X 10 = 40)

1. Explain and illustrate the application of budgets in strategical decision making.

2. Explain briefly the application of marginal costing techniques.

3. A company is considering expansion. Fixed cost amount to Rs. 550,000 and are expected to additional increase by Rs. 185,000 when project expansion is completed. The present project capacity is 90,000 units a year. Capacity will increase by 50% with the expansion. Variable cost currently Rs. 7.80 per unit, are expected to go down by Re.0.60 per unit with expansion. The current selling price is Rs. 35 per unit and it is expected to remain the same under each alternative. What are the BEP in under each alternative? Which alternative is better and why?

4. ABC Co., is planning to purchase laboratory equipment. The equipment will cost Rs. 500,000 and estimated earnings after taxes are Rs. 50,000 each year for 5 years. Assume required rate of return 10 percent. Determine IRR.

5. The following information is given regarding two products A and B.

Particulars	Product A	Product B
Sales price per unit	Rs. 180	Rs. 155
Direct material	Rs. 135	Rs. 135
Direct labour hours (Re. 0.50 per hour)	18 hours	5 hours
Variable overheads: 100 % direct wages		
Fixed Overheads : Rs. 300,000		

Show the profitability of products during labour shortage.

6. From the following particulars, prepare the Stores Ledger Account showing how the value of the issues would be recorded under LIFO methods:

01/12/2015	Opening stock 10000 units at Rs. 36/- each
05/12/2015	Purchased 5000 units at Rs. 34.50/- each
07/12/2015	Issued 7500 units
10/12/2015	Purchased 15000 units at Rs. 34/- each
12/12/2015	Issued 1100 units
15/12/2015	Purchased 10000 units at Rs. 35/- each
17/12/2015	Issued 5800 units
28/12/2015	Issued 3500 units

II. Answer any three questions: (3 X 20 = 60)

1. A hospital is considering two mutually exclusive projects. Both require an initial cash outlay of Rs. 10,00,000 (with no salvage value) and have life of 5 years. The required rate of return is 10 percent and it pays tax at a rate of 35 percent. The project will be depreciated on a straight line basis for tax purpose. The cash flow (before depreciation and taxation) expected to be generated by the projects as follows:

Year	Project A (Rs.)	Project B (Rs.)
1	400,000	600,000
2	400,000	300,000
3	400,000	200,000
4	400,000	500,000
5	400,000	500,000

Calculate NPV and PI for each project, and suggest which project should be accepted and why?

2. You are presented with the following information prepared from the Audited Balance Sheet of XYZ company :

Particulars	*2017 Rs.*	*2018 Rs.*
Assets:		
Debtors	300,000	500,000
Inventory	500,000	500,000
Equipments	120,000	150,000
Buildings	100,000	100,000
	10,20,000	**12,50,000**
Liabilities:		
Short term loan	110,000	260,000
Creditors	250,000	300,000
Profit & Loss account	100,000	130,000
Paid Up Capital (Rs. 10 per share, Rs. 7.50 paid)	560,000	560,000
	10,20,000	**12,50,000**
Sales	10,00,000	15,00,000
Gross Profit	250,000	300,000
Net Profit	50,000	70,000
Dividend paid	40,000	40,000

The opening stock at the beginning of 2017 was Rs. 40,000. You are required to show in respect of each year the following ratios and comment on the changes in the profitability, liquidity and financial position of the company.

3. Draw up a flexible budget overhead expenses on the basis of the following data and determine overhead rates at 60% and 70% capacity level:

At 70% capacity

Particulars	(Rs.)
Fixed overheads:	
Depreciation	210,000
Insurance	65,000
Salaries	150,000
Rent	58,000
Variable overheads:	
Indirect labour	140,000
Stores including spares	40,000
Travelling expenses	200,000
General expenses	50,000
Semi-Variable overheads:	
Power (20% fixed)	230,000
Repairs (30 % variable)	28,000
Internet charges(40% fixed)	36,000

4. From the following Trial balance prepare financial statements for year ending March 31st, 2018:

Particulars	Debit(Rs.)	Credit(Rs.)
Cash in hand	5400	
Cash at bank	26300	
Purchases	406750	
Return inwards	6800	
Contract wages	84800	
Power	47300	
Carriage on sales	32000	
Carriage on purchase	20400	
Opening stock	57600	
Buildings	320000	
Freehold premises	100000	
Equipments	200000	
Patents	75000	
Salaries	150000	
General expenses	30000	
Insurance premium	6000	
Drawings	52450	
Sundry Debtors	145000	
Sales		987800
Return outwards		5000
Owners Capital		620000
Sundry Creditors		63000
Rent		90000
	1765800	1765800

Additional information:

a. Closing stock was valued at Rs. 68000.
b. Depreciate all tangible assets at 8% and intangible assets at 10%.
c. Salaries outstanding Rs. 15000.
d. Insurance included a premium paid for the next financial year Rs. 1700.

5. A company is expecting to have Rs. 25,000 cash in hand on 2nd April 2019 and it requires you to prepare an estimate of cash position in respect of three months from April to June 2019, from the information given below:

Month	Sales	Purchase	Wages	Expenses
February	70,000	40,000	8,000	6,000
March	80,000	50,000	8,000	7,000
April	92,000	52,000	9,000	7,000
May	100,000	60,000	10,000	8,000
June	120,000	55,000	12,000	9,000

Additional Information:

a. Period of credit allowed by suppliers – two months.
b. 25 % of sales are for cash and the period of credit allowed to customer credit sale one month.
c. Delay in payment of wages and expenses one month.
d. Tax Rs. 25,000 is to be paid in June 2019.