

Roll No



**PRESIDENCY UNIVERSITY
BENGALURU**

**SCHOOL OF COMMERCE
END TERM EXAMINATION - JUN 2023**

Semester : Semester IV - 2021

Course Code : MAH2004

Course Name : Sem IV - MAH2004 - Strategic Financial Management

Program : BCH

Date : 16-JUN-2023

Time : 1.00PM - 4.00PM

Max Marks : 100

Weightage : 50%

Instructions:

- (i) Read all questions carefully and answer accordingly.
- (ii) Question paper consists of 3 parts.
- (iii) Scientific and non-programmable calculator are permitted.
- (iv) Do not write any information on the question paper other than Roll Number.

PART A

ANSWER ALL THE QUESTIONS

(10 X 2 = 20M)

1. Why sunk costs are not relevant in the decision-making process?
(CO4) [Comprehension]
2. If the demand for a product is elastic, a price increase will result in revenue increase/decrease?
(CO1) [Knowledge]
3. Western Company sells its single product for \$60 per unit. The contribution margin ratio is 45% and Wilkinson has fixed costs of \$20,000 per month. If 6,000 units are sold in the current month, what is the Wilkinson's income.
(CO4) [Comprehension]
4. Even though a company implements an enterprise risk management program, is still it still likely to have risk?
(CO5) [Comprehension]
5. If a product's price elasticity of demand is greater than one, then a 1% price increase will cause the quantity demanded to.
(CO2) [Knowledge]
6. In a management decision process, the cost measurement of the benefits sacrificed due to selecting an alternative use of resources is most often referred to as a(n).
(CO1) [Knowledge]
7. "A decrease in the cost of muffins." What kind of shift will it cause for bagels?
(CO3) [Knowledge]

8. What is opportunity cost?

(CO2) [Knowledge]

9. Projected sales for a tent manufacturer are \$510,000. Each tent sells for \$850 and requires \$350 of variable costs to produce. The tent manufacturer's total fixed costs are \$145,000. The tent manufacturer's margin of safety is in terms of units.

(CO5) [Comprehension]

10. If the present value of expected cash inflows from a project equals the present value of expected cash outflows, the discount rate equal to.

(CO3) [Comprehension]

PART B

ANSWER ALL THE QUESTIONS

(4 X 10 = 40M)

11. Dayton Corporation manufactures pipe elbows for the plumbing industry. Dayton's per unit sales price and variable costs are as follows. Sales price \$10 Variable costs 7.
Dayton's practical plant capacity is 35,000 units. Dayton's total fixed costs amount to \$42,000, and the company has a 50% effective tax rate. If Dayton produced and sold 30,000 units, net income would be.

(CO1) [Comprehension]

12. Bell Inc. has a new project available which is expected to generate annual sales of 200,000 units for the next 8 years and then be discontinued. New equipment will be purchased for \$1,600,000 and cost \$200,000 to install. The equipment will be depreciated on a double-declining basis over its useful life. At the end of the eighth year, it will cost \$50,000 to remove the equipment, which can be sold for \$150,000. Additional working capital of \$400,000 will be required immediately and needed for the life of the product. Annual indirect costs will increase by \$300,000. Bell's effective tax rate is 40%.

In a capital budgeting analysis, what is the cash outflow at time 0 (initial investment) that Bell should use to compute the net present value?

(CO4) [Comprehension]

13. At the conclusion of a capital budgeting project, a piece of equipment is expected to be sold for \$500,000. At the time of sale, the book value of the equipment would be \$400,000. If the income tax rate is 35%, what is the after-tax cash flow from the sale of the machine?

(CO2) [Comprehension]

14. A company's budget indicated the following cost per unit for the company's most popular product.

Variable manufacturing costs	\$64
Fixed manufacturing overhead	45
Sales commissions	3
Fixed selling and administrative costs	32

Although this product normally sells for \$160 per unit, the company received a special order from a new customer. If the company has idle capacity, its income would increase by accepting the order if the selling price per unit for the order was greater than.

(CO3) [Comprehension]

PART C

ANSWER ALL THE QUESTIONS

(2 X 20 = 40M)

- 15.** Cervine Corporation makes motors for various products. Operating data and unit cost information for its products are presented below

	Product A	Product B
Annual unit capacity	10,000	20,000
Annual unit demand	10,000	20,000
Selling price	\$100	\$80
Variable manufacturing cost	53	45
Fixed manufacturing cost	10	10
Variable selling & administrative	10	11
Fixed selling & administrative	5	4
Fixed other administrative	2	-
Unit operating profit	\$20	\$10
Machine hours per unit	2.0	1.5

Cervine has 40,000 productive machine hours available. What is the maximum total contribution margin that Cervine can generate in the coming year?

(CO5) [Application]

- 16.** A detergent company sells large containers of industrial cleaner at a selling price of \$12 per container. Each container of cleaner requires \$4.50 of direct materials, \$2.50 direct labor, and \$1.00 of variable overhead. The company has total fixed costs of \$2,000,000 and an income tax rate of 40%. Management has set a goal to achieve a targeted after-tax net income of \$2,400,000. What amount of dollar sales must the company achieve in order to meet its goal?

(CO4) [Comprehension]