



**PRESIDENCY UNIVERSITY
BENGALURU**

SCHOOL OF COMMERCE

MID TERM EXAMINATION – APR 2023

Semester: SEMESTER IV - 2021

Course Code: MAH2004

Course Name: Strategic Financial Management

Program & Sem: BCH

Date: 17-APR-2023

Time: 9.30AM TO 11.00 AM

Max Marks: 50

Weightage: 25%

Instructions:

- (i) Read the all questions carefully and answer accordingly.
- (ii) Question Paper consists of 3 parts. Attend all the questions.
- (iii) Do not write any information on the question paper other than roll number

Part A

Answer all the Questions. Each question carries two marks.

(5Qx 2M= 10M)

1. Phillips & Company produces educational software. Its unit cost structure, based upon an anticipated production volume of 150,000 units, is as follows.

Sales price	\$160
Variable costs	60
Fixed costs	55

The marketing department has estimated sales for the coming year at 175,000 units, which is within the relevant range of Phillip's cost structure. Phillip's break-even volume (in units) and anticipated operating income for the coming year would amount to

- a. 82,500 units and \$7,875,000 of operating income
- b. 82,500 units and \$9,250,000 of operating income
- c. 96,250 units and \$3,543,750 of operating income
- d. 96,250 units and \$7,875,000 of operating income

(C.O.No.1) [Comprehension]

2. Breakeven quantity is defined as the volume of output at which revenues are equal to

- a. marginal costs
- b. total costs
- c. variable costs
- d. fixed costs

(C.O.No.1) [Comprehension]

3. 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)

- a. relevant cost
- b. sunk cost.
- c. opportunity cost.
- d. differential cost.

(C.O.No.1) [Comprehension]

4. The total cost of producing 100 units of a good is \$800. If a firm's average variable cost is \$5 per unit, then the firm's

- a. average fixed cost is \$3.
- b. total variable cost is \$300
- c. marginal cost is \$3
- d. marginal cost is \$8

(C.O.No.1) [Comprehension]

5. The advantages of incorporating full product costs in pricing decisions include all the following except
- ease in identifying unit fixed costs with individual products
 - full product cost recovery
 - the promotion of price stability
 - a pricing formula that meets the cost-benefit test; i.e., simplicity
- (C.O.No.2) [Comprehension]

Part B

Answer all questions. Each question carries ten marks. (2Qx 10M= 20M)

6. Raymund Inc., a bearings manufacturer, has the capacity to produce 7,000 bearings per month. The company is planning to replace a portion of its labor-intensive production process with a highly automated process, which would increase Raymund's fixed manufacturing costs by \$30,000 per month and reduce its variable costs by \$5 per unit

Raymund's Income Statement for an average month is as follows.

Sales (5,000 units at \$20 per unit)	\$100,000
Variable manufacturing costs	\$50,000
Variable selling costs	15,000 65,000
Contribution margin	35,000
Fixed manufacturing costs	16,000
Fixed selling costs	4,000 20,000
Operating income	\$ 15,000

If Raymund installs the automated process, the company's monthly operating income would be

(C.O.No.3) [Comprehension]

7. Sunshine Corporation is considering the purchase of a new machine for \$800,000. The machine is capable of producing 1.6 million units of product over its useful life. The manufacturer's engineering specifications state that the machine-related cost of producing each unit of product should be \$.50. Sunshine's total anticipated demand over the asset's useful life is 1.2 million units. The average cost of materials and labor for each unit is \$.40. In considering whether to buy the new machine, would you recommend that Sunshine use the manufacturer's engineering specification of machine-related unit production cost?

(C.O.No.3) [Comprehension]

Part C

Answer the Question. Question carries twenty marks. (1Qx 20M= 20M)

8. MetalCraft produces three inexpensive socket wrench sets that are popular with do-it-yourselfers. Budgeted information for the upcoming year is as follows

Model	Selling Price	Variable Cost	Estimated Sales Volume
No. 109	\$10.00	\$ 5.50	30,000 sets
No. 145	15.00	8.00	75,000 sets
No. 153	20.00	14.00	45,000 sets

Total fixed costs for the socket wrench product line is \$961,000. If the company's actual experience remains consistent with the estimated sales volume percentage distribution, and the firm desires to generate total operating income of \$161,200, how many Model No. 153 socket sets will MetalCraft have to sell?

(C.O.No.3) [Comprehension]