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**Presidency University**

**Bengaluru**

 **SCHOOL OF COMMERCE**

**MID TERM EXAMINATION – MAY 2023**

**Winter Semester**: 2022 - 23

**Course Code**: MAH2004

**Course Name**: Strategic Financial Management

**Program & Sem**: BCH, CMA 4th Sem

**Date**: 22/05/2023

**Time**: 2PM TO 3.30 PM

**Max Marks**: 50

**Weightage**: 25%

 **Instructions:**

1. *Read the all questions carefully and answer accordingly.*
2. *Attend all the questions.*

**Part A**

**Answer all the Questions. Each question carries two marks. (5Qx 2M= 10M)**

1. The Toy House, a very profitable company, plans to introduce a new type of doll to its

product line. The sales price and costs for the new dolls are as follows

Selling price per doll $100

Variable cost per doll $80

Incremental annual fixed costs $400,000

Income tax rate 30%

If 10,000 new dolls are produced and sold, the effect on Toy House’s profit (loss) would

be

1)$(200,000)

2)$(56,000)

3)$(60,000)

4)$0

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

2. Breeze Company has a contribution margin of $4,000 and fixed costs of $1,000. If the

total contribution margin increases by $1,000, operating profit would

1)decrease by $1,000.

2)increase by more than $1,000

3)increase by $1,000

4)remain unchanged (C.O.No.1) [Comprehension]

3. Which one of the following pricing methods focuses on setting the price based on

recouping the manufacturing cost of the product and achieving a desired profit?

1)Market-based pricing

2)Cost-based pricing

3)Target pricing

4)Life-cycle based pricing (C.O.No.1) [Comprehension]

4. Wilkinson Company sells its single product for $30 per unit. The contribution margin

ratio is 45% and Wilkinson has fixed costs of $10,000 per month. If 3,000 units are sold

in the current month, Wilkinson’s income would be

1)$30,500

2)$49,500

3)$40,500

4)$90,000

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

5. A company manufactures a product that has the following unit price and costs

Selling price $300

Costs

Direct materials $40

Direct labor 30

Variable manufacturing overhead24

Fixed manufacturing overhead 60

Variable selling 6

Fixed selling and administrative 20

Total costs (180)

Operating margin $120

The company received a special order for 1,000 units of the product. The company

currently has excess capacity but has an alternative use for this capacity that will result

in a contribution margin of $20,000. What is the minimum price that the company

should charge for this special order?

1)$120, because it covers the costs of manufacturing the product and allows the

company to break even.

2)$140, because operating margin will increase by $20,000

3)$180, because it covers the costs of manufacturing the product and allows the

company to break even

4)$200, because operating margin will increase by $20,000 (C.O.No.2) [Comprehension]

**Part B**

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

6.. Starlight Theater stages a number of summer musicals at its theater in northern Ohio.

Preliminary planning has just begun for the upcoming season, and Starlight has developed the

following estimated data.



1 Represent payments to production companies and are based on tickets sold.

2 Costs directly associated with the entire run of each production for costumes, sets, and artist

fees.

If management desires Mr. Wonderful to produce profit of $210,000 toward the firm’s overall

operating income for the year, total number of performance would have to be.

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

7. Verla Industries is trying to decide which one of the following two options to pursue. Either option will take effect on January 1st of the next year.

Option One - Acquire a New Finishing Machine. The cost of the machine is $1,000,000 and will have a useful life of five years. Net pre-tax cash flows arising from savings in labor costs will amount to $100,000 per year for five years. Depreciation expense will be calculated using the straight-line method for both financial and tax reporting purposes. As an incentive to purchase, Verla will receive a trade-in allowance of $50,000 on their current fully depreciated finishing machine.

Option Two - Outsource the Finishing Work. Verla can outsource the work to LM Inc. at a cost of $200,000 per year for five years. If they outsource, Verla will scrap their current fully depreciated finishing machine.

 Verla’s effective income tax rate is 40%. The weighted-average cost of capital is 10%.

 When comparing the two options, the $50,000 trade-in allowance would be considered

relevant/irrelevant? And Why? (C.O.No.3) [Comprehension]

**Part C**

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

8. OneCo Inc. produces a single product. Cost per unit, based on the manufacture and sale

of 10,000 units per month at full capacity, is shown below.

Direct materials $4.00

Direct labor 1.30

Variable overhead 2.50

Fixed overhead 3.40

Sales commission0.90

 $12.10

The $0.90 sales commission is paid for every unit sold through regular channels.

Market demand is such that OneCo is operating at full capacity, and the firm has found

it can sell all it can produce at the market price of $16.50.

Currently, OneCo is considering two separate proposals:

1. Gatsby, Inc. has offered to buy 1,000 units at $14.35 each. Sales commission

would be $0.35 on this special order.

1. Zelda Productions, Inc. has offered to produce 1,000 units at a delivered cost to

One Co of $14.50 each.

Question:

Assume Gatsby has offered a second proposal to purchase 2,000 units at the market

price of $16.50, but has requested product modifications that would increase direct

materials cost by $.30 per unit and increase direct labor and variable overhead by 15%.

The sales commission would be $.35 per unit. Should OneCo accept this order? Explain

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