



Time Allowed – 2 Hours

Maximum Marks – 60

Roll No.:

- (i) Attempt both the cases 1 and 2 carrying 30 marks each.
- (ii) **Answers must be neat, relevant and brief.**
- (iii) In marking the question paper, the examiners take into account clarity of exposition, logic of arguments, effective presentation, language and use of clear diagram or chart where appropriate.
- (iv) Read the instructions printed on the top cover of answer script **CAREFULLY** before attempting the paper.
- (v) Use of non-programmable scientific calculator of any model is allowed.
- (vi) **DO NOT** write your Name, Reg. No. or Roll No. anywhere inside the answer script.
- (vii) Multiple Choice Questions (MCQs) printed separately, is an integral part of this question paper.
- (viii) Question paper must be returned to the invigilator before leaving the examination hall.

## **CASE # 1**

Marks

TonyToy Limited is a small manufacturing company, it manufactures toys and is famous for wide range of quality toys. For many years, the company has been profitable and was operating successfully. However, in the last few years, company profits have been declined due to depressed market conditions.

The budgeted cost data for the coming year are as under:

Capacity Utilisation	Rs. '000'	
	60%	80%
Direct material	1,800	2,400
Direct labour	2,400	3,200
Production overhead	1,260	1,380
Administrative overhead	620	660
Selling and distribution overhead	680	740
	6,760	8,380

The company is likely to operate at 50% capacity and turnover is expected to Rs.4,950,000 in the coming year. In view of the expected losses there is a proposal of temporary suspension of the business. However, Mr. Butt the President of the company has concerns about the results of temporary suspension and said, "I do not favour the idea of temporary suspension as it will loose its existing customers and the goodwill of the company".

Market research indicates that the depression will be over in a year and sales will increase to Rs.9,000,000 utilising 75% capacity.

The following costs will be incurred even if company considers suspension of its operations for the year:

	Rupees
Fixed cost	400,000
Labour cost settlement	350,000
Plant maintenance	100,000
Reopening cost	100,000

### **Required:**

As you are appointed as a Management Consultant of the company, you have been asked to look into the proposal of temporary suspension and draft a report to the management on the feasibility of temporary suspension or otherwise, for the coming year. Your report should clearly highlight the reasons (based on calculations) of favouring the suspension or otherwise give arguments of rejecting the proposal and possible outcomes/ impacts of it.

30

## **CASE # 2**

**Marks**

Star Cement Limited is presently operating at 60% capacity level, producing 360,000 bags of cement per annum. The major raw material to manufacture cement is limestone which is obtained from company's own mines located near the plant.

However, in a recent meeting the Board of Directors has embarked on a policy of increasing capacity utilisation and the members decided to increase the capacity. It is decided in the coming year that production will be increased by 33.33% over its existing production.

The following financial information is available:

<b>Cost structure per bag of cement:</b>	<b>Rupees</b>
Gypsum	50.00
Limestone	37.50
Clay/ shale	37.50
Packing material	25.00
Direct labour	75.00
Variable overhead	62.50
Fixed overhead	50.00
Profit margin	<u>162.50</u>
Selling price	<u>500.00</u>

### **Additional Information:**

- Holding period of raw material:

	<u>Months</u>
Gypsum	2.0
Limestone	1.0
Clay/ shale	1.5
Packing material	<u>1.0</u>
  
- Product is in process for a period of one (1) month assuming full units of material (gypsum; limestone, and clay/ shale) are required in beginning, other conversion costs are to be taken @ 50%.
- Finished goods remain in store for one (1) month.
- Debtors are allowed credit for two (2) months.
- The credit period offered by various suppliers are:

	<u>Months</u>
Gypsum	2.0
Clay/ shale	1.0
Packing material	<u>0.5</u>
  
- Average time lag in wages and overhead payments is one (1) month and these expenses accrue evenly throughout the production cycle.
- No increase either in cost or selling price is expected.

### **Required:**

- (a) You are required to prepare a projected profitability statement at increased capacity (ignore taxation). **10**
  
- (b) Prepare a statement showing working capital requirement at the new level, assuming that a minimum cash balance of Rs.195,000 is desired. **15**
  
- (c) Length of operating cycle is the major determinant of working capital requirement of a business organization. Elaborate. **05**

**THE END**