Subject: Financial Aspects of Marketing
Specialisation: Marketing
Course: MMS (Semester 3) **29-10-2015**

Marks: 100 Marks **Duration: 3 Hours**

Instructions: -

Q1 is compulsory and solve any FOUR from the remaining SIX questions. Attempt Any FOUR from the Remaining SIX Questions.

Q1) Solve below sub-questions.

a) A company produces three products. The cost details are as under--

		A	**B**	**C**
Direct material	Rs	64	152	117
Direct Labour	Rate per hour	Hrs	Hrs	Hrs
Dept	Rs.			
1	5	18	10	20
2	6	5	4	7
3	4	10	5	20
Variable cost	Rs.	16	9	21
Fixed cost	Rs. 4 Lakhs			

The budget was prepared at a time when market was sluggish. The budgeted quantity and selling prices are as under--

Product	Budgeted Qty	Selling Price (Rs. Per unit)
A	9,750	270
B	7,800	280
C	7,800	400

Later the market improved and the sales quantities could be increased by 20% for product A and 25% each for product B and C. The sales manager confirmed that the increased quanities could be achieved at prices originally budgeted. The production manager stated that the output cannot be increased beyond the budgeted level due to limitation of direct labours in department 2. You are required to prepare budgeted profitability statement and also set an optimal product mix and calculate optimal profit. ……….....**(12 Marks)**

b) ABC Garments Ltd manufactures ready-made garments and sells them on credit basis to a network of dealers. Its current sale is Rs.120 lakhs per annum with 20 days credit period. The company is planning an increase in the credit period with a view to increasing sales. Present VC is 70% of the sales and the total fixed costs Rs.16 lakhs per year. The company expects pre-tax return on investment @25%. Few details are given below –

Proposed Credit Policy	**Average Collection Period (Days)**	**Expected Annual Sales (Rs. lakhs)**
A	30	130
B	40	140
C	50	148
D	60	150

Which credit policy should be adopted by the firm? (Assume 360 days in a year) ....**(8 Marks)**

Q2) ***Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks***

a) Explain any two strategic alternatives for companies who are looking at growing their business and market share.

b) What are the decision areas in recievables management.

c) XL Dynamics Ltd is considering relaxing its credit policy. It sells 20,000 units at present at SP per unit of Rs.100 and VC is Rs.88. Fixed costs at current level of sales are Rs.80,000. All sales made by the company are credit sales and average collection period is 36 days. A relaxed credit policy is expected to increase the sales by 10% and average collection period to 60 days. Assuming 15% return, give your recommendation whether the company can relax its credit policy.

Q3) ***Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks***

a) Budget for Himalayan Beverages for current year is given as under.

Direct Material	Rs 7 per unit
Direct Labour (Requires 1.6 hrs per unit)	Rs 2.5 per unit
Salesmen commission	Re 1 per unit sold
Fixed Selling & distribution expenses	Rs 85,000 /- per month.

Manufacturing overheads (estimated) are as follows-

	1,20,000 units	***1,50,000 units***
	Rs	**Rs**
Indirect materials	2,64,000	3,30,000
Indirect labour	1,50,000	1,87,500
Inspection	90,000	1,12,500
Maintenance	84,000	1,02,000
Supervision	1,98,000	2,34,000
Depreciation	90,000	90,000
Engineering Services	94,000	94,000

Prepare- Total Cost Budget for 1,40,000 units of output

b) A small scale manufacturer produces an article at operated capacity of 10,000 units while the normal capacity of his plant is 14,000 units. Working at profit margin of 20% on sales realisation, he has formulated his budget as under:-

Units	**10,000 units**	**14,000 units**
Sales Realisation	2,00,000	2,80,000
Variable Overheads	50,000	70,000
Semi-variable overheads	20,000	22,000
Fixed overheads	40,000	40,000

The company gets an order for a quantity equivalent to 20% of the operated capacity and even on this additional profit margin is desired at same percentage on sales realisation as for the production to operated capacity. Assuming prime cost is constant per unit of production, what should be the minimum price to realise this objective.

c) What is budgeting ? Also explain the concept of flexible budgeting.

Q4) ***Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks***

a) Explain Micheal Porter`s Cost Leadership Strategy.

b) A company produces 30,000 units of product A and 20,000 units of product B per annum. The sales value and costs of the two products are as follows--

Sales Value	7,60,000
Direct Material	1,40,000
Direct Labour	1,90,000

Factory Overheads	1,90,000
Admin & Selling Overheads	1,20,000

50% of factory overheads are variable and 50% of admin and selling overheads are fixed. The selling price of A is Rs.12 per unit and B is Rs.20 per unit. The direct material and labour ratio for product is 2:3 and for B is 4:5. For both products the selling price is 400% of direct labour. Factory overheads are charged in ratio of direct labour and admin & selling expenses are recovered at a flat of Rs.2 per unit for product A and Rs.3 per unit for product B.

Due to fall in demand of the above product, the company has a plan to diversify and make product C using 40% capacity. It has been estimated that for C direct material and direct labour will be Rs.2.50 and Rs.3 per unit respectively. Other variable costs will be same as applicable to product product A. The selling price of product C is Rs.14 per unit and production will be 30,000 units. Assuming 60% capacity is used for manufacture of A and B, calculate-- a) Present cost and profits b) Costs and profits after diversification

c) Give your recommendation as to whether to diversify or not.

Q5) ***Any two from (a) or (b) or (c) ———— (5x2) = 10 Marks***

Market Division of Cables India Ltd wishes to discontinue the sale of one of the products in view of its unprofitable operations. Following details are available for the year ended March 31,2013.

Details	A	B	C	D
Sales Revenue (Rs)	6,00,000	10,00,000	5,00,000	9,00,000
Cost of Sales	3,50,000	8,00,000	3,70,000	1,80,000
Storage Area(Sq.Mt)	40,000	60,000	70,000	30,000
No.of Cartons Sold	2,00,000	3,00,000	1,50,000	3,50,000
No.of Bills Raised	1,00,000	1,20,000	80,000	1,00,000

Overhead Costs And Basis of Allocation-

Fixed expenses	Amt Rs	Basis of Allocation
Administrative Wages and Salaries	1,00,000	No.of Bills Raised
Salesmen Salaries & Wages	1,20,000	Sales Turnover
Rent And Insurance	60,000	Storage Area
Depreciation	20,000	No.of cartons

Variable Costs-

Commission	4% on Sales
Packing Material And Wages	Rs.0.50 per carton
Stationery	Rs.0.20 per bill

Based on above data, you are required to prepare:-
a) Statement showing summary of Selling & Distribution costs to products
b) Prepare P&L Statement showing contribution and profit/ loss on sale of each product to enable the marketing department take appropriate decision on discontinuance of sale of product. **(10 Marks)**
c) Explain product life cycle theory with respect to financial decision-making in decisions relating to

products and markets.

Q6) ***Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks***
a) What is CVP analysis and its applications in managerial decision-making.
b) Explain break-even analysis with proper example. Also give formulas for arriving BEP in amount and no.of units.
c) A single product company sells its product at Rs 60 per unit**.** In 2006, the company operated at 40% margin of safety. Fixed cost was Rs 3,60,000 and contribution ratio was 20%. In 2007, variable cost is estimated to rise by 10% and fixed cost by 5%. Find the selling price in 2007 to maintain same contribution ratio as that of 2006. Assuming the same selling price of Rs 60 per unit in 2007, find the sales volume to earn same profit as in 2006.

Q7) ***Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks***

a) Explain fixed costs and variable costs.

b) Novice Ltd is planning to launch a new product. Following estimates are available.

Per Unit Price (Rs)	Demand (In thousand units)
30.00	400
31.50	380
33.00	360
34.50	340
36.00	315
37.50	280
39.00	240

Cost Details-
Direct Material Rs.12 per unit
Direct Labour Rs.3 per unit
Variable Expenses Rs.3 per unit
Selling Expenses 10% on sales
Fixed Production Overheads Rs.14,40,000
Admin Expenses Rs.10,80,000

c) ABC Co Ltd makes a range of home appliance under brand name of Homemaker, through a branch network. To remain competitive, the company runs series of promotional offers and schemes. The concerned branch managers are given freedom to take decisions with regard to pushing dealers and creating brand pull via advertising, provided they deliver consistent performance. The branch performance of the company has been summarised below –

Particulars	Branch A	Branch B
Gross Sales (Avg per month)	336.50	99.00
Sales Returns (Avg per month)	47.70	3.67
Net sales (avg per month)	288.80	95.33
Scheme Discounts (avg per month)	27.55	4.43
Employee Cost	2.88	0.66
Sales Promotion	0.46	0.12
Travelling	0.68	0.29

Freight	1.06	0.14
Establishments & other costs	9.05	2.56
Total Expenses	**14.13**	**3.77**
Working Capital		
Stocks (Avg.Monthly)	497.00	143.00
Outstanding (Avg.monthly	514.00	250.00
Bank Balance at month end	228.00	148.00

Comment on the performance of these branches on issues mentioned below-

- Managing schemes / discounts, expenses control and working Capital Control