

**2016**

**MBA**

**3rd Semester Examination**

**WORKING CAPITAL MANAGEMENT**

**(Specialisation : Financial Management)**

**PAPER—F-301**

*Full Marks : 100*

*Time : 3 Hours*

*The figures in the margin indicate full marks.*

*Candidates are required to give their answers in their own words as far as practicable.*

*Illustrate the answers wherever necessary.*

**1. Answer any four of the following : 5×4**

- (a) Write the operating cycle concept of Working Capital.
- (b) Write the objectives of working capital management.
- (c) Material X is used as follows :

Minimum usage 50 units in a week

Normal usage 100 units in a week

Maximum usage 150 units in a week

Ordering quantity 500 units and

re-order period is 3-5 weeks.

*(Turn Over)*

You are required to calculate maximum level, minimum level, re-order level and average stock level of materials X. 5

- (d) Briefly explain the factors which determine the working capital requirement of an organization.
- (e) Find the average cash balance based on Miller-Ore model, if a firm maintains a minimum cash balance of Rs. 5,000, daily variance is Rs. 1000, conversion cost is Rs. 20 and the interest rate is 10% per annum.
- (f) Every year an organization buy its raw material whose total purchase cost worth Rs. 1,00,000. The inventory carrying costs (per annum) is 25% and each ordering procedure involves a total expenditure of Rs. 500. Find Economic Order Quantity.

2. Answer any *four* of the following : 5×4

- (a) Write the objectives of cash management.
- (b) What is Bin Card ? Give a proforma of a Bin Card.
- (c) Write the factors to determine the volume of debtors.
- (d) Explain the concepts of Permanent Working Capital and Temporary Working Capital.

- (e) A company's credit sales amount to Rs. 60,00,000 with variable cost to sales ratio of 60% and annual fixed cost of Rs. 12,00,000. Its present credit policy is 60 days. It proposes to introduce a cash discount scheme of 2/10, net 60. It is estimated that 50% of the debtors will take advantage of the discount. As a result, the average age of debtors would be reduced to 30 days. The required rate of return is 20%. Evaluate the proposal and give your recommendation for acceptance.
- (f) "Working capital can be either positive or negative."  
— Justify the statement.

3. Answer any *two* of the following : 10×2

- (a) A proforma of cost sheet of a company provides the following particulars :

<i>Element of Cost</i>	<i>Amount per unit (₹)</i>
Raw material	80
Direct labour	30
Overhead	60
Total cost	170
Profit	30
Selling Price	200

The following further particulars are available :

- (i) Raw materials are in stock on average 1 month ;
- (ii) Materials are in process on average of 1 month ;
- (iii) Finished goods are in stock on an average 1 month ;
- (iv) Credit allowed by a supplier is 1 month ;
- (v) Credit allowed to debtors is 2 months ;
- (vi) Lag in payment of wages is  $1\frac{1}{2}$  week ;
- (vii) Lag in payment of overhead expenses is 1 month ;
- (viii)  $\frac{1}{4}$  th of output is sold against cash ;
- (ix) Cash in hand and at bank is expected to be ₹ 25,000.

You are required to prepare a statement showing the working capital needed to finance a level of activity of 1,04,000 units of production per annum. You may assume that production is carried on evenly throughout the year, Wages and Overhead accrue evenly. A time period of 4 weeks is equivalent to a month. 10

- (b) A manufacturer buys certain components from outside suppliers. The annual demand is 5000 units. The prices of different quantities are :

<i>Ordering Quantities</i>	<i>Price per unit (₹)</i>	<i>Foregone discount per unit (₹)</i>
Less than 400	4	.20
400 — 800	3.95	.15
800 — 1000	3.90	.10
1000 — 5000	3.80	---

Order placing cost per unit is ₹ 10. Carrying cost per unit per annum ₹ .50.

What is the Economic Ordering Quantity? 10

- (c) A company's present annual sales amount to Rs. 30,00,000 @ Rs. 12 per unit. Variable costs are Rs. 8 per unit and fixed cost amounts to Rs. 2,50,000 annually. The present credit period of one month is proposed to be extended to 2 months or 3 months, whichever appears to be more profitable. It is estimated that in the event of extension of credit policy, sales will increase by 8% and 30% respectively. The company requires a pre-tax return on investment of at least 20% for the level of risk involved. Evaluate the profitability of the proposals.

4. Answer any *two* of the following :

10×2

(a) Classify the following inventories according to ABC plan :

Items	Units	Unit Cost (₹)
1	7,000	5.00
2	24,000	3.00
3	1,500	10.00
4	600	22.00
5	38,000	1.50
6	40,000	.50
7	60,000	.20
8	3,000	3.50
9	300	8.00
10	29,000	.40
11	11,500	7.10
12	4,100	6.20

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(b) (i) Explain how compensating cash balance is determined in an organisation.

(ii) What is cash budget ? Explain how it is prepared.

5+(2+3)

(c) Discuss in detail Tandon Committee recommendations for financing working capital.

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**[ Internal Assessment : 20 ]**