

**2017**

**MBA**

**3rd Semester Examination**

**WORKING CAPITAL MANAGEMENT**

**(Specialisation : Financial Management)**

**PAPER—F-301/305**

*Full Marks : 100*

*Time : 3 Hours*

*The figures in the right-hand margin indicate full marks.*

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

*Illustrate the answers wherever necessary.*

*Answer Q. No. 1 and any four from the rest*

1. Answer any *eight* of the following questions : 8×5
- (a) Write the gross and net concept of working capital.
  - (b) Write the basic objective of inventory management.
  - (c) Write the factors to be considered in fixation of maximum and minimum inventory levels.

- (d) State the major costs associated with maintenance of receivable.
- (e) Do you think that conservative policy in financing the working. Capital is opposite of Aggressive policy of financing ?
- (f) Mention the benefits of Just- in-Time system.
- (g) Write the objectives of cash management.
- (h) Write the agencies to be accessed before granting credit to a new customer.
- (i) Ordering cost per order is ₹ 6 carrying cost per unit per year 20% of — material cost per annum. What is the economic order quantity ? 5

- (j) A component of material is used as follows :

Normal usage 50 units per week each

Minimum usage 25 units per week each

Maximum usage 75 units per week each

Re-order Quantity 300 units

Re-order period 4 to 6 weeks

Calculate

- (i) Re-order level ; (ii) Minimum level and (iii) Maximum level. 1+2+2

- (k) From the following information calculate optimum level of safety stock.

<i>Demand per month</i>	<i>Probability</i>
400	0.2
550	0.3
600	0.4
700	0.1

Economic Ordering Quantity is 500 units P.M. Leadtime is 3 days. Stock out cost is ₹ 10 p.u. carrying cost is ₹ 2 p.u.

- (l) Explain the meaning of credit term 2/10 net 30 in debtors management. If the credit sales amount ₹ 10,00,000 and 60% customers enjoy the cash discount facility, then calculate the amount of discount to be allowed o the customers. 2+3
2. Exon Ltd. has Current Sales of ₹ 6,00,000 per annum. In order to push up Sales, Exon is considering a more liberal credit policy as one of the strategies. The average collection period of the company at present is 30 days. The proposed increases in collection period and their impact on sales and default rate (on total Sales) are given below :

<i>Credit Policy</i>	<i>Increase in collection period</i>	<i>Increase in Sales (₹)</i>	<i>Default rate</i>
I	15 days	25,000	.5%
II	30 days	60,000	1.0%
III	40 days	70,000	2.0%

Exon Ltd. is Selling its product at ₹ 10 each. the average cost per unit at the current level is ₹ 8 and variable cost per unit is ₹ 6. If Exon requires a rate of return of 20% on its investment, which credit policy do you recommend and why? Assume 360 days in a year. 10

3. Narrate the major steps involved in credit evaluation procedure of a firm. 10
4. (a) Explain the operating cycle concept in working capital.  
(b) What do you understand by 'Optimum level of current Assets'? Explain the various approaches of investment in current assets. 6+4
5. A company has given the forecast Sales for January 2018 to July 2018 and actual Sales for November and December, 2017 as under. With the other particulars given, prepare a Cash Budget for the five months i.e. from January to May, 2018.

(a) Sales 2017 November	1,60,000
December	1,40,000
2018 January	1,60,000
February	2,00,000
March	1,60,000
April	2,00,000
May	1,80,000
June	2,40,000
July	2,00,000

- (b) Sales 20% in cash, 80% in credit, Payable in the third month (January Sales in March).
- (c) Variable expenses 5% on turnover, time lag is half month.
- (d) Purchases, 60% of Sales of the third month, payment will be made on 3rd month of purchase.
- (e) Rent and other expenses ₹ 5,000 paid every month.
- (f) Opening cash balance in January, 2018 is ₹ 80,000.

10

6. A company is producing 2,400 units of value per annum. you are required to calculate working capital requirement from the following information :

**Cost-Price structure**

<i>Element of cost</i>	<i>Per unit (₹)</i>
Raw material	6
Direct Labour	3
Overheads	4
Total cost	<u>13</u>
Profit	3
Selling Price	<u>16</u>

Raw material are in stock on an average for 2 months. The duration of the production process is  $\frac{1}{2}$  a month. Finished goods are in Stock, on an average, for one month. Credit allowed to customer is 3 months and that obtained from Suppliers of raw material is  $1\frac{1}{2}$  months. Lag in payment of wages is  $\frac{1}{2}$  a month. There is, usually, no lag in payment of overheads.

10

7. Write notes on the following (any two) : 2×5

(a) Inventory Model of Baunial in optimun cash balance determination.

(b) Working Capital Leverage.

- (c) Chore Committees' recommendation regarding bank credit.
- (d) Determinants of working capital requirements.

**[ Internal Assessment : 20 Marks ]**

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