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 *all questions*.

1. Answer any *eight* questions : 8×5

(a) Explain the term Permanent Current Asset and Temporary Current Asset.

(b) What do you mean by positive and negative working capital ?

(c) Write the problems of too little working capital.

(d) Explain the term working capital leverage.

(e) What do you mean by optimum level of current assets ?

(f) Write the factors to be considered in financing (long term vs. short term) current assets.

(g) Write the ingredients of a good inventory policy.

(h) Derive the formula of Economic Ordering Quantity.

$$EOQ = \sqrt{\frac{20u}{I}}$$

where O = Ordering Cost per order

u = Annual Demand

I = Carrying Cost per Unit Per Annum.

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

Demand Per Month	*Probability*
500	0.2
550	0.3
600	0.4
750	0.1

(j) Economic Ordering Quantity is 500 units per month. Lead time may be 2 day, 3 day or 4 day. The probability of 2 day, 3 day and 4 day. Lead time is 0.5, 0.3 and 0.2 respectively. Stock out cost is ₹ 10 per unit and carrying cost is ₹ 4 per unit per annum.

(k) Explain the meaning of credit term 1/10 net 30 in debtors management. If credit sales amount ₹ 60,00,000 and 70% customers enjoy the cash discount facility, then calculate the amount of discount to be allowed to the customers.

Write the references to be used by a finance manager before granting credit to a new customer.

(l) Write the cost factors to be considered in cash management.

2. Answer any *four* questions : 4×10

(a) Briefly explain the factors to be considered in working capital requirement determination.

(b) From the following information calculate maximum permissible bank credit recommended by both Tandon committee and Chore Committee.

Current Assets :		*₹/Lakhs*
Inventories :	₹/Lakhs	
Raw Materials	400	
Work in Progress	40	
Finished goods	180	620
Receivables (including bills discounted with banks)		100
others		20
		740
Current Liabilities :		*₹/Lakhs*
Creditors for Purchases		200
Other Current Liabilities		100
Bank Borrowings (including bills discounted with banks)		400
		700

(c) **From the following details concerning a manufacturing enterprise estimate the amount of working capital needed to finance an activity level of 80%. Make suitable assumptions whenever necessary.**

(i) Production capacity 2000 units per month

(ii) Selling Price ₹100 per unit

(iii) Raw material ₹ 30 per unit

(iv) Direct labour ₹ 25 per unit

(v) Overhead ₹18,200 per month

(vi) Processing time One month

(vii) Inventory holding

a) Raw Materials : One month's Production

b) Finished goods : Two month's supply.

(viii) Credit period :

a) Customers : 3 months

b) Suppliers : 2 months.

(ix) Lag in payment

a) Wages : 15 days

b) Expenses : 1 month

Contingency Cash 10% of total working capital.

(d) At present X company's credit terms are 1/10, net 30. Its credit sales are ₹50,00,000, its average collection period is 25 days, its contribution margin is 15% and its cost of fund of 20%. The proportion of funds on which customers currently took discount is 0.4. The company is currently thinking of changing its discount terms to 2/10, net 30. This is expected to *increase* sales to ₹80,00,000, reduce the average collection period to 15 days and increase the proportion of discount sales to 0.8.

Bad debt losses are at present 3% of sales. It is anticipated that additional sales would generate bad debts @ 5%.

Advise the company whether it should relax the discount terms. You may assume 360 days in a year.

10

(e) (i) Write the Matching policy in working capital financing.

(ii) From the following particulars with respect to a particular item of material of a manufacturing company, calculate the best quantity to order :

Ordering quantities (Tonnes)	*Price per tonne (₹)*	*Foregone discount per tonne (₹)*
Less than 250	6.0	0.40
250 and < 800	5.90	0.30
800 and < 2,000	5.80	0.20
2,000 and < 4,000	5.70	0.10
4,000 and above	5.60	—

The annual demand for the materials 4,000 tonnes. Stock holding cost are 20% of material cost per annum, the ordering cost per order is ₹ 6. 3+7

(f) Explain the operating cycle concept in working capital Management in a manufacturing firm.

[Internal Assessment : 20 Marks]