

**MBA 3rd Semester Examination, 2019**

**WORKING CAPITAL MANAGEMENT**

**PAPER – MBA-308**

*Full Marks : 100*

*Time : 3 hours*

*The figures in the right hand margin indicate marks*

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

*Illustrate the answers wherever necessary*

**GROUP—A**

Answer any **eight** questions : 2 × 8

1. Explain the terms 'Gross Working Capital' and 'Networking Capital'.
2. What is 'Core Current Asset' ?
3. What is 'Re-order level' in inventory management ?

4. What is safety stock ?
5. Write the factors to be considered in maximum level determination.
6. Explain the meaning of credit term 2/15 net 30 in debtors management.
7. Draw the operating cycle in a manufacturing firm.
8. What do you mean by financing of current assets ?
9. What is compensating cash balance ?
10. What is carrying cost in inventory management ?
11. Mention different constituents of working capital.
12. What is cash flow ?

### GROUP-B

Answer any **eight** questions :

4 × 8

13. Write the objectives of Working Capital Management.
14. Explain the highly aggressive policy in working capital financing.
15. Do you think that conservative policy and Aggressive policy in working capital financing are opposite to each other ?
16. Write the objectives of inventory management.
17. Write the cost and benefit factors to be considered in debtors management.
18. Explain how rise in price level affects the requirement of working capital in a firm.
19. Do you think that retention policy of a firm affect the working capital requirement ?

20. From the following find out the (i) Maximum Level (ii) Minimum Level (iii) Re-order level.

Re-order quantity	– 1500 units
Re-order period	– 4 to 6 weeks
Maximum consumption	– 400 units per week
Minimum consumption	– 250 units per week
Normal consumption	– 300 units per week

21. State the recommendations of Shri K.B. Chore committee formed by RBI in 1979.
22. What is cash flow forecasting and what are different common methods of cash flow forecasting?
23. Define 'reorder point' and state the needs of establishing reorder point in inventory management.
24. Briefly discuss ABC approach in inventory control system.

## GROUP-C

Answer any **four** questions :

8 × 4

25. You are required to prepare for the board of directors of Sonata Ltd. statement showing the working capital needed to finance a level of activity of 5,200 units of output per annum. You are given the following information.

<u>Element of Cost</u>	<u>Amount per unit ( ₹ )</u>
Raw material	8.00
Direct labour	2.00
Overhead	6.00
Total Cost	<u>16.00</u>
Profit	<u>4.00</u>
Selling price	20.00

Raw material are in stock on average one month.  
 Material are in process on average half a month.  
 Finished goods are in stock on average six weeks.

Credit allowed by creditors is one month. Credit allowed to debtors is two months. Lag in payment of wages is one week and lag in payment of expenses is half week. Cash in hand and bank expected to be ₹ 7,300.

Assume production is carried out evenly throughout the year, wages and overhead accrue similarly.

26. A company's present credit sales amount to ₹ 50 lakhs. Its variable cost ratio is 60% and fixed cost amount to ₹ 10 lakhs per annum. The company proposes to relax its present credit policy of 1 month to either 2 months or 3 months, as the case may be. The following information are also given :

	<u>Present Policy</u>	<u>Policy -1</u>	<u>Policy-2</u>
Average age of debtors	1 month	2 months	3 months
Increase in sales	—	30%	40 %
Percentage of bad debt	1	2.5	4
Collection Cost ( ₹ )	10,000	18,000	23,000

If the company requires a return on investment of 20% before tax , evaluate the proposals.

27. A company making for stock in first quarter of the year is assisted by its bankers with overdraft accommodation. The following are the relevant budget figures :

(Fig. ₹ '000)

<u>Month</u>	<u>Sales</u> <u>(Credit)</u>	<u>Purchases</u> <u>(Credit)</u>	<u>Wages and</u> <u>Expenses</u>
November	120	83	10
December	128	96	10
January	72	162	11
February	116	164	10
March	84	40	12

Given the following further information, you are required to prepare a Cash Budget for the quarter January to March, showing the budgeted amount of bank facilities required, if any, at each month end :

- (i) Budgeted Cash at Bank on 1st January,  
₹ 20,000.

- (ii) Credit terms of sale are payment by the end of the month following the month of supply on average, one half of sales are paid on the due date, whilst the other half are paid during next month. Creditors are paid during the month following the month of supply.
- (iii) Wages and expenses are paid twice in a month on the 1st and 16th respectively.

28. (i) Do you think that the assumptions in Economic Ordering Quantity (EOQ) determination are unrealistic? Justify your answer.
- (ii) From the following information calculate optimum level of safety stock. Assume lead time is certain and it is 3 days.

<u>Demand per month(units)</u>	<u>Probability</u>
480	.2
570	.3
620	.3
730	.2



*Additional information :*

EOQ is 500 units per month. Stock out cost is ₹ 12 per unit and carrying cost is ₹ 5 per unit per annum.

29. The Reserve Bank of India constituted a study group in 1974 under Chairmanship of Shri Prakash Tandon-What were the objectives behind the formation of the study group? Briefly state the recommendations of this study group.
30. State and discuss the different major elements of costs and benefits associated with account receivables.

[*Internal Assessment—20 Marks* ]

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