

**MBA 3rd Semester Examination, 2024**

**MBA**

*(Working Capital Management)*

**PAPER — MBA-306C**

*Full Marks : 100*

*Time : 3 hours*

**Answer all questions**

*The figures in the right hand margin indicate marks*

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

**GROUP—A**

**Answer any eight questions from the following :**

**5 × 8**

- 1. Do you think that permanent working capital is always fixed; but temporary working capital varies according to level of activity ?**

**( Turn Over )**

2. Write the problems of too much and too little Working capital.
3. Explain the term Working Capital leverage.
4. Justify the Hedging or Matching policy of working capital financing in reality.
5. Write the differences between Compensating and self imposed Cash balance.
6. Write the costs associated with Safety Stock management.
7. What is Bin Card in Inventory management ?
8. Explain the credit term of a customer is which 1/10 net 30. Also calculate the discount on credit sales of Rs. 30,00,000, assume 80% customers enjoy discount facilities. 2 + 3

9. Explain the ABC analysis in Inventory management.
10. Explain the transaction motive of holding cash.
11. Explain the Baumol's model of determination of self balancing Cash balance.
12. Particulars of materials used in a factory are given below :

Minimum Usage- 40 units per week

Maximum Usage- 200 units per week

Normal usage- 120 units per week

Re-ordering quantity- 600 units

Delivery period- 4 to 6 weeks

Calculate : Re-ordering stock level; Minimum stock level and Maximum stock level.

2 + 2 + 1

## GROUP— B

10 × 4

Answer any **four** of the following :

**13.** Tata Motors Ltd., whose current sales in the order of Rs. 20 lakhs p.a. and an average collection period of 30 days wants to pursue a more liberal policy to push up sales. A study by a management consultant reveals the following information :

Credit Policy	Increase in Collection period	Revised Sales (Rs. in lakhs)	Anticipated Default rate
I	10 days	21	1.5%
II	20 days	22	3%
III	30 days	24	3.5%
IV	60 days	27	4%

The Selling price per unit of the product sold by Tata Motors Ltd. is Rs. 15. Average cost per unit is Rs. 10 and variable cost per unit is Rs. 5.

The current bad debt loss is 1%, required return on additional investment is 10%. Assuming 360 days in a year, which one of the above four policies would you recommend for the company for adoption ? 10

14. (i) Derive the formula of Economic Ordering Quantity (EOQ) =  $\sqrt{2OU/I}$   
Where O : Ordering cost per order  
U : Annual demand of the product  
and I : Carrying cost per unit per annum

(ii) The Purchase Department of an organization has received an order of quantity discounts of on its orders of material as under :

Price per ton (Rs.)	Quantity (Tones)
1500	Less than 250
1420	250 and less 500
1350	500 and less than 1000
1330	1000 and less than 1500
1300	1500 and above

The annual requirement of the material is 6000 tones. The delivery cost per order is Rs. 600 and the annual stock holding cost is estimated at 12% of the average inventory.

You are required to determine the most economical ordering quantity, presenting the relevant information in tabular form. 4 + 6

15. From the following information estimate the net working capital required for the project. Add 10% of your computed figure to allow contingencies and Additional cash of Rs. 2 lakhs.

Estimated cost per unit of production :	Amount per unit (Rs.)
Raw material	100
Direct labour	40
Overhead	60
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Total cost	200

**Additional Information :**

Selling price	Rs. 200 per unit
Level of activity	104000 units of production per annum
Raw material in stock	average 4 weeks
Work in Progress	average 2 weeks
Finished goods in stock	average 4 weeks
Credit allowed by supplier	average 4 weeks
Credit allowed to debtors	average 6 weeks
Lag in payment of wages	average 2 weeks
Lag in payment of overhead	average 1 week
Cash at bank is expected to be Rs. 50,000.	

You may assume that production is carried on evenly throughout the year (52 weeks) and wages and overhead accrue evenly. 10

16. From the following information calculate  
(i) Maximum permissible bank credit,

(ii) current ratio, (iii) Funds required from long term sources under three methods of Tandon Committee. Also interpret the results of the three methods.

Current Assets :	Amount (Rs. Lakhs)
Inventory	1000
Receivables	600
Other Current assets	800
	<hr/>
	<u>2300</u>
Current Liabilities :	
Creditors	500
Other current liabilities	200
Bank Borrowings (short term)	<u>600</u>
	<u>1500</u>

Assume Core current asset is 10% of total current assets. 8 + 2

17. From the information given below, prepare a cash budget of the ABC Ltd. for 6 months from July to December, 2024 :

Month	Credit sales (Rs'000)	Materials (Rs'000)	Wages (Rs'000)	Overheads				Research and Development
				Production (Rs'000)	Adminis- tration	Selling	Distri- bution	
April	100	50	10	5.4	3000	2000	800	1000
May	120	60	12	6.0	4000	2200	1000	1200
June	80	40	10	5.6	3800	1900	800	1000
July	150	70	16	7.2	4500	2000	750	1500
August	180	80	18	8.0	4200	1800	700	1400
September	200	90	18	8.6	4800	2200	800	1200
October	230	110	20	9.0	5400	2400	900	1300
November	250	120	22	9.8	6000	2600	1000	1500
December	270	140	24	10.0	6200	3000	1100	1600

Cash balance on 1st. July, 2024 is expected to be Rs. 1,80,000

Expected Capital Expenditure :

Plant and Machinery to be installed in August at a cost of Rs. 50,000 will be payable on 1st September; Extension to Research and Development amounting to Rs. 20,000 will be completed on August 1, payable Rs. 4000 per month from completion date.

Cash Sales of Rs. 10,000 per month are expected.

No commission is payable.

A sales commission of 5% on credit sales is to be paid within the month following the sales.

Period of credit allowed by suppliers            3 months

Period of credit allowed to customers        2 months

Delay in payment of overhead including

Research and Development cost            1 month

Delay in payment of wages                    1 month

Income Tax of Rs. 2,00,000 is due to be paid  
on 1st October. 10

18. Explain the Operating Cycle concept in  
Working capital determination of a manu-  
facturing firm. 10

**[ Internal Assessment – 20 Marks ]**