2025

MBA 3rd Semester Examination

MBA

Paper : 306C

[Working Capital Management]

Full Marks : 100 Time : Three Hours

The figures in the margin indicate full marks. Candidates are required to give their answers in their own words as far as practicable.

Group - A

Answer any *eight* questions : 5×8=40

1. Explain the concepts of positive and negative working capital.

2. Distinguish between permanent working capital and fluctuating working capital.

3. Briefly explain the Operating Cycle concept in working capital for a trading business.

4. Briefly explain the Aggressive policy in working capital financing.

P.T.O.

5. What are the major objectives of Payable management?

6. Briefly explain the Perpetual Inventory and Continuous stock taking system as inventory control system.

7. Write the factors to be considered in maximum level fixation in inventory management.

8. Write the objectives of management of sundry debtors.

9. Discuss the costs involved in management of Cash.

10. From the following information calculate Spread, Upper limit and Return point as per Miller-Orr model :

Lower control limit set	Rs. 8000
Interest rate per day	.08%
Standard deviation of daily cash flows	Rs. 600
Switching cost per transaction	Rs. 20

2+1+2

11. Explain the credit term 2/10, net 30 to a customer and also calculate the amount of discount for credit sales of Rs. 5000000. Assume 60% customers have enjoyed discount facilities.

12. Briefly discuss the factors to be considered in determining working capital requirement of a manufacturing firm.

Group - B

Answer any *four* questions : 10×4=40

13. Ashoka Ltd., whose current sales in the order of Rs. 22 lakhs p.a. and an average collection period of 40 days wants to pursue a more liberal policy to 60 days, 90 days or 120 days to push up sales. A study by a management consultant reveals the following information :

Credit Policy	Credit period	Anticipated sales	Anticipated Default rate
I	60 days	Rs. 2700000	1.5%
II	90 days	Rs. 3000000	2%
III	120 days	Rs. 3600000	4%

The Selling price per unit of the product sold by the company Rs. 15. Average cost per unit is Rs. 10 and variable cost per unit is Rs. 6.

The current bad debt loss is 1%, required return on additional investment is 20%. Assuming 360 days in a year, which one of the above three policies would you recommend for the company for adoption? 10

P.T.O.

14. From the following information estimate the net working capital required for the project adding 20% of your computed figure to allow contingencies.

Estimated cost per unit of production:	Amount per unit (Rs.)
Raw material	70
Direct labour	30
Overhead (inclusive of depreciation Rs.10)	60
Total cost	160

Additional Information:

Selling price	Rs. 180 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 8 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. 50000.	

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

15. 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 mention the maximum bank credit as per Chore Committee.

Current Assets :	Amount (Rs. Lakhs)
Inventory	700
Receivables	300
Other Current assets	500
	1500
Current Liabilities :	
Creditors	400
Other current liabilities	200
Bank Borrowings (short term)	500
	1100

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

16. Hero Ltd. has given the forecast sales for January 2026 to July 2026 and actual sales for November and December 2025 as under. With the other particulars given prepare a Cash Budget for the five months i.e. January to May, 2026.

(i) Sales : November, 2025 Rs. 160000

December, 2025 Rs. 140000

P.T.O.

2026	**Rs.**
January	160000
February	200000
March	160000
April	200000
May	180000
June	240000
July	200000

(ii) Sales 30% cash and 70% credit, payable in the third month

(iii) Variable expenses 10% on turnover, time lag half month

(iv) Commission 2% on credit sales payable in the third month

(v) Purchases 60% of the sales of the third month; in which 50% payment will be made in current month of purchase and remaining 50% paid in the 2nd month of purchase

(vi) Rent and other expenses Rs. 10000 paid every month

(vii) Other payments :

Fixed Asset purchase March, 26	Rs. 60000
Taxes April, 2026	Rs. 20000

(viii) Opening Cash balance Rs. 60000

10

17. (i) From the following information calculate optimum level of Safety Stock. Assume Economic Ordering Quantity of the firm is 500 units. The lead time of inventory is 5 days and it is certain. Stock out cost Rs. 10 per unit and carrying cost Rs. 3 per unit per annum. Expected demand and their probabilities are given below.

Daily Consumption (units)	Probability
400	.2
600	.4
1000	.3
1200	.1

(ii) Briefly explain the Baumol's Inventory model of Self imposed cash balance determination. 5+5

18. Briefly explain the Walker's first principle on the relationship between relative amount of working capital employed with risk and return. 10

Internal Assessment : 20 marks
