## 2018

### MBA

### 3rd Semester Examination

### WORKING CAPITAL MANAGEMENT

### (Specialisation : Financial Management)

#### PAPER—F-301

#### Subject Code—09

*Full Marks :* 100

*Time :* 3 Hours

*All questions carry equal marks.*

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

*Illustrate the answers wherever necessary.*

1. Answer any *eight* of the following :                    8×5

   (a) Explin the gross and net concept of Working Capital.

   (b) Write the objectives of inventory management.

   (c) Explain the major cost elements relate with debtors management.

(d) Explain the term compensating cash balance.

(e) Write the factors to be considered in fixation of maximum inventory level.

(f) Write how depreciation policy and dividend policy of firm influence the working capital requirement in a firm.

(g) Write the implication of the credit term 3/10 net 30 in debtors management. Suppose total sales is ₹ 60,00,000 (of which 80% in credit), the credit term is as above (3/10 net 30) and 70% of the customers' have taken the discount facilities. Calculate the amount of discount to be allowed to debtors.

(h) Write the significance of core current assets in working capital management.

(i) Explain the following statement 'shorter the operating cycle duration, lesser amount to be invested in working capital and higher the operating cycle duration, more amount to be invested in Working Capital'.

(Continued)

(j) Derive the formula of Economic ordering Quantity (EOQ)

i.e. $EOQ = \sqrt{\dfrac{2\ OU}{I}}$

where O = Ordering cost per order

I = Carrying cost per unit per annum

U = Annual usage of the product.

(k) What is safety stock ? How optimum level of safety stock is determined ?

(l) Write the major cost elements related with cash management.

2. Answer any *four* of the following : 4×10

(a) From the following data, compute the duration of the operating cycle for each of the two years and comment on the increase/decrease :

| Particulars | Year-1 | Year-2 |
|---|---|---|
| Stocks : | (₹) | (₹) |
| Raw material | 20,000 | 27,000 |
| Work in process | 14,000 | 18,000 |
| Finished goods | 21,000 | 24,000 |

| Particulars | Year-1 | Year-2 |
|---|---|---|
| Purchase of raw materials | 96,000 | 1,35,000 |
| Cost of goods sold | 1,40,000 | 1,80,000 |
| Sales | 1,60,000 | 2,00,000 |
| Debtors | 32,000 | 50,000 |
| Creditors | 16,000 | 18,000 |

Assume 360 days per year for computations purposes.

(b) EXON Ltd. has current sales of ₹ 6,00,000 p.a. To push up sales, EXON is considering a more liberal credit policy as one of the strategies. The current average collection period of the company is 30 days. Proposed increases in collection period and their impact on sales and default rate (on total sales) are given below :

| Credit policy | Increase in Collection period (Days) | Increase in sales (₹) | Default rate |
|---|---|---|---|
| I | 15 | 25,000 | .5% |
| II | 30 | 60,000 | 1.0% |
| III | 40 | 70,000 | 2.0% |

EXON is selling its product at ₹ 10 each. 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, whic credit policy do you recommend and why ? Assume 360 days a year.

(c) Explain the Aggressive Financing Strategy of Working Capital.

(d) What is the basic premise of the Hedging or Matching approach for meeting funds requirements ? What are the effects of this approach on the probability and risk ?

6+4

(e) The annual cash requirement of A Ltd. is ₹ 10 lakhs. The company has marketable securities in lot sizes of ₹ 50,000 ; ₹ 1,00,00 ; ₹ 2,00,000 ; ₹ 2,50,000 and ₹ 5,00,000. Ccst of conversion of marketable securities per lot is ₹ 1,000. The company can earn 5% yield on its securities.

You are required to prepare a table indicating which lot size will have to be sold by the company.

Also, show that economic lot size can be obtained by the Baumol Model. 7+3

(f) Do you think that working capital is the life blood of an organisation. How the optimum level of current asset is determined in an organisation ?                    5+5

*[ Internal Assessment : 20 Marks ]*

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