

**NEW**

**2015**

**MBA 3rd Semester Examination**  
**WORKING CAPITAL MANAGEMENT**  
**(Specialisation : Financial Management)**

**PAPER—F-301**

*Full Marks : 100*

*Time : 3 Hours*

*The figures in the 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 the questions.*

1. Answer any four of the following : 5×4
- (a) Explain Gross Working Capital and Net Working Capital.
- (b) Explain Positive Working Capital and Negative Working Capital. 3+2

*(Turn Over)*

- (c) Write any five factors determining the Working Capital requirement.
- (d) Explain the costs related with management of Sundry Debtors.
- (e) A Company's Balance Sheet as at 31.12.2014 reflects the following position :

<u>Current Assets :</u>	₹ lakh	₹ lakh
Inventories :		
Raw Materials	500	
Work-in-Progress	50	
Finished Goods	<u>100</u>	650
Receivables		100
Others		<u>50</u>
		<u>800</u>
 <u>Current Liabilities :</u>		
Creditors for Purchases		300
Other current Liabilities		<u>100</u>
		400
Bank Borrowing (short term)		<u>400</u>
		<u>800</u>

Calculate maximum permissible Bank Credit under the three methods of bank lending as recommended by Tandon Committee. 2+1+2

(f) Write the objectives of management of Sundry Debtors.

2. Answer any *four* questions of the following : 5×4

(a) What are the objectives of cash management ? Explain, in brief, Boumol's model of cash management. 2+3

(b) Describe the factors determining cash needs. 5

(c) AB company has a policy of maintaining a minimum cash balance of Rs. 30,000. The standard deviation of company's net cash flow is Rs. 1000. The transaction cost is Rs. 90 per transaction. The interest rate is 2 per cent daily. Find the spread Z, the return level, the upper limit and the average cash balance according to Miller-ORR model. 5

(d) State the assumptions of the basic EOQ model. What are the various costs associated with the levels of inventory. 2+3

(e) C Ltd. produces a product which has annual demand equals 8000 units, ordering cost per order is Rs. 12.50, the carrying cost of average inventory is 20% per year

and the cost per unit is Re. 1.00. Find :

- (i) Economic Order Quantity ;  
 (ii) Total Ordering Cost ;  
 (iii) Total Inventory Carrying Cost 3+1+1
- (f) Write a note on ABC analysis. 5

3. Answer any *two* of the following : 10×2

- (a) From the following details concerning a manufacturing enterprise estimate the amount of working capital needed to finance.
- (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 ₹ 23,000 per month.  
 (vi) Processing time 1 month  
 (vii) Inventory holding :  
     (a) Raw materials one month's production  
     (b) Finished Goods two months supply  
 (viii) Credit period :  
     (a) Customers Three months  
     (b) Suppliers Two months

(ix) Lag in Payment :

- (a) Wages                      15 days  
 (b) Expenses                    One month

(b) 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 :

	Present Policy	Policy 1	Policy 2
Average age of debtors	1 month	2 months	3 months
Increase in sales	—	20%	30%
Percentage of bad debts	1	2.5	5

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

- (c) (i) Explain the operating cycle concept of working capital management.  
 (ii) What do you mean by extension of credit policy ?

5+5

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

(a) (i) Explain briefly some of the techniques of inventory management.

(ii) Write short notes on 'Concentration Banking' and 'Lock-box System'. 5+(2½+2½)

(b) The budgeted income and expenditure of a manufacturing concern for the periods from Nov., 2014 to June, 2015 are as follows :

Year and Month	Sales Rs.	Purchases Rs.	Manufacturing Expenses Rs.	Office Expenses Rs.	Selling Expenses Rs.
2014 Nov.	3,00,000	1,00,000	20,000	25,000	15,000
Dec.	3,80,000	1,25,000	25,000	25,000	18,000
2015 Jan.	4,10,000	1,50,000	30,000	25,000	22,000
Feb.	4,20,000	1,55,000	32,000	30,000	25,000
March	4,70,000	1,60,000	35,000	30,000	27,000
April	4,50,000	1,30,000	33,000	30,000	26,000
May	4,90,000	1,65,000	37,000	30,000	28,000
June	5,00,000	1,70,000	40,000	30,000	30,000

Additional Information :

(i) 80% of total sales are made on credit. There is no cash purchase.

- (ii) 1% of credit sales are expected to be returned by debtors and 0.5% are expected to be bad.
- (iii) Period of credit allowed to customers is one month. 50% is recovered, on an average on due date and the remaining 50% is one month overdue.
- (iv) Period of credit allowed by suppliers is 2 months.
- (v) Manufacturing expenses are usually paid 15 days' interval i.e. on 1st and 16th day of each month.
- (vi) Time lag in payment of office expenses and selling expenses is one month.
- (vii) A bank loan (long-term) of Rs. 100,000 was taken carrying interest @ 18% per annum payable in March, June, September and December of each year. No payment has to be made towards principal during 2015.
- (viii) A Sales Commission @ 5% on gross credit sales is payable in the third month of sale in addition to selling expenses.
- (ix) Advance payment of Rs. 300,000 is expected to be paid in March, 2015 for the procurement of a machinery.
- (x) Opening cash balance in January, 2015 is Rs. 100,000. The concern wants to keep a constant cash

balance of Rs. 100000 each month and the excess or shortfall, if any, is to be adjusted by way of investment in securities or taxing a private loan. Interest receivable or payable is to be ignored.

On the basis of the above information, prepare a Cash Budget for the first 6 months of the year 2015. . . 10

- (c) A firm is engaged in the manufacturing of two products component 'A' and 'B'. Product A uses one unit of component 'P' and two units of component 'Q'. Product B uses two units of components 'P', and one unit of component 'Q' and two units of component 'R'. Component 'R' which is assembled in the factory uses one unit of component 'Q'. Components 'P' and 'Q' are purchased from the market.

The firm has prepared the following forecast of sales and inventory for the next year :

	Product (units)	
	A	B
Sales	8000	15000
Inventories :		
at the beginning of the year	3000	5000
at the end of the year	1000	2000



The production of both the products and the assembling of the component 'R' will be spread out uniformly throughout the year.

The firm at present orders its inventory of component 'P' and 'Q' in quantities equivalent to 3 month's consumption. The firm has been advised that savings in the purchasing of components can arise by changing over to the ordering system based on economic ordering quantities. The firm has compiled the following data relating to the two components :

	P	Q
Component usage per annum (units)	30,000	48,000
Price per unit (Rs.)	2.00	0.80
Ordering cost per order (Rs.)	15.00	15.00
Carrying cost per year	20%	20%

Required :

- (i) Prepare a budget of production and requirement of components for the next year.
- (ii) Find the economic order quantity.

- (iii) Based on the economic order quantity, calculate the savings arising from switching over to the new ordering system both in terms of cost and reduction in working capital. 10

**[ Internal Assessment : 20 ]**

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