

MBA 3rd Semester Examination, 2023

MBA

(Working Capital Management)

PAPER – MBA-306(C)

Full Marks : 80

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

PAPER – MBA-306(C)

GROUP – A

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

5 × 8

1. Do you think that under gross concept of

(Turn Over)

working capital, it is always positive ; but in net concept working capital may be positive or negative ? Discuss.

2. Do you think that permanent working capital and fixed capital are same nature ? Explain.
3. What is an Optimum Current Asset ? Explain with suitable example.
4. Do you think that Conservative policy is completely opposite to Aggressive policy in working capital financing ? Explain.
5. Briefly explain the various needs of Cash.
6. What are the factors to be considered in formulating a good Inventory management policy ?

7. Mention the factors to be considered in maximum level fixation in Inventory management.
8. How will you get credit worthiness of a new customer ?
9. Briefly explain the costs involved in management of sundry debtor.
10. From the following information calculate Spread, Upper limit and Return point as per Miller-Orr model :

Lower control limit set	Rs. 5000
Interest rate per day	0.05%
Standard deviation of daily cash flows	Rs. 600
Switching cost per transaction	Rs. 30

11. Briefly explain the Baumol's EOQ model of cash management.

12. Ten items kept in inventory by the School of Management Studies at State University are listed below. What percentage of items and of total value in each class (A-item, B-item and C-item) ?

Item	Annual Usage in units	Value per unit (Rs.)
1	200	40
2	100	360
3	2000	0.20
4	400	20.00
5	6000	0.04
6	1200	0.80
7	120	100
8	2000	0.70
9	1000	1
10	80	400

GROUP-B

Answer any **four** questions of the following :

10 × 4

13. Bharat Tyre Ltd., whose current sales is Rs. 10 lakhs p.a. and an average collection period of 40 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	Increase in sales	Anticipated Default rate
I	15 days	Rs. 70000	2%
II	20 days	Rs. 90000	3%
III	40 days	Rs. 110000	4%
IV	50 days	Rs. 120000	5%

The selling price per unit of the product sold by Bharat Tyre Ltd. is Rs. 10. Average cost per unit is Rs. 7 and variable cost per unit is Rs. 5.

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

14. From the following information estimate the net working capital required for the project. Add 10% of your computed figure to allow contingencies.

Estimated cost	Amount per
per unit of production :	unit (Rs.)
Raw material	80
Direct labour	30
Overhead (inclusive of depreciation Rs. 20)	60
Total cost	170

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 8 weeks
Lag in payment of wages	average 1 and 1/2 weeks
Lag in payment of overhead	average 1 weeks
Cash at bank is expected to be Rs. 25000	

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

15. Explain the factors determine the Working Capital requirement in a manufacturing firm.

16. Hero Ltd. has given the forecast sales for January 2024 to July 2024 and actual sales for November and December 2023 as under. With the other particulars given prepare a Cash Budget for the five months i.e January to May, 2024.

(i) Sales 2023 November	Rs. 160000
December, 2023	140000
2024	
January	160000
February	200000
March	160000
April	200000
May	180000
June	240000
July	200000

(ii) Sales 30% in cash and 70% in 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. 12000 paid every month
- (vii) Other payments :

Fixed Asset purchase	
March, 24	Rs. 50000
Taxes April, 2024	Rs. 10000
Opening Cash balance	Rs. 60000

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 3 days and it is certain. Stock out cost Rs. 12 per unit and carrying cost Rs. 2 per unit per annum. Expected demand and their probabilities are given below.

Daily Consumption (units)	Probability
400	0.1
600	0.3
1000	0.4
1200	0.2

- (ii) Mathematically derive the formula of Economic Ordering Quantity in inventory management. 5 + 5
18. (i) Explain the term Working Capital Leverage.

(ii) From the following information calculate

- (a) Maximum permissible bank credit.
- (b) Current ratio
- (c) 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	1200
Receivables	800
Other Current assets	<u>1000</u>
	<u>3000</u>

Current Liabilities :	
Creditors	800
Other current liabilities	400
Bank Borrowings (short term)	<u>600</u>
	<u>1800</u>

Assume Core current asset is 10% of total current assets.

3 + 7