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MBA

(SEM-IV) THEORY EXAMINATION 2018-19

WORKING CAPITAL MANAGEMENT

Time: 3 Hours ***Total Marks: 70***

Note: 1. Attempt all Sections. If require any missing data; then choose suitably.

SECTION A

1. Attempt *all* questions in brief. 2 x 7 = 14

a. Briefly explain the factors which determine the Working Capital.

b. Explain aggressive & defensive working capital policies of working capital management.

c. How will you decide whether or not to establish Lock Box System of Cash Collection?

d. Explain the role of credit terms in a credit policy.

e. Write short note on Ordering Cost and Carrying Cost.

f. What are the costs of trade credit as a source of short-term funds?

g. What are peak-level and non-peak level credit limits?

SECTION B

2. Attempt any *three* of the following: 7 x 3 = 21

a. While preparing a project report on behalf of a client you have collected the following information. Estimate working capital required (for the level of activity 1, 50,000 units) for the firm after adding 10 per cent contingency. You may assume that production is carried on evenly throughout the year and wages and overhead expenses accrue similarly

	Cost per Unit (Rs.)
Raw Materials	38.50
Direct Labour	11.80
Overheads (excluding depreciation Rs.5)	32.00
Total Cost	**82.30**
Profit	17.70
Selling Price	**100.00**

Additional Information:

Average raw materials in stock: four weeks; average materials-in-process (50 per cent completion stage): Half of month; average finished goods in stock: four weeks; credit allowed by suppliers: one month; credit allowed to debtors: eight weeks; lag in payment of wages: two weeks. Cash at bank is expected to be Rs.1, 00,000.All sales are credit sales.

b. Jai Prakash Ltd. has two dates when it receives its cash inflows, that is, February 15, and August 15.On each of these dates, it expects to receive Rs.15 crore. Cash expenditures are expected to be steady throughout the subsequent 6 month period. Presently, the ROI in marketable securities is 8 per cent per annum, and the cost of transfer from securities to cash is Rs.125 each time a transfer occurs.

(i) What is the optimal transfer size using the EOQ model? What is the average cash balance?

(ii) What would be your answer to part (i), if the ROI were 12 per cent per annum and the transfer costs were Rs.75?Why do they differ from those in part (i)?

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c. Gokul Plastic currently provides 20 days of credit to its customers. Gokul's present sales are Rs.9 lakhs.The contribution margin ratio is 0.25 percent.Gokul is considering extending its credit period by 10 days, such an extension of credit increases sales to Rs.10 lakhs at the same time it involves 5 percent bad debt loss on new sales. Calculate the change in net profit (residual income) with the assumption of 40 percent tax and cost of capital is 12 percent and also suggest that the Gokul should implement the proposed extension of credit period? Give reason, and also increase the bad debt portion on new sales would be 5%. Suggest whether the company consider the relaxation of credit standards or not.

d. The following information relating to inventory in Vertex Ltd. is made available to you. The company wants to introduce the scheme of ordering only the economic order quantity.

Annual Demand- 480 units	Price per unit – Rs.4
Carrying cost- 40 paise per unit	Cost per order – Rs. 5 per unit

Dctermine the economic order quantity. Also determine the number of orders per year and frequcncy of purchases.

e. Discuss the main conclusions and rccommendations of the Dahejia Committee.

SECTION C

3. Attempt any *one* part of the following: 7 x 1 = 7

(a) What is the concept of working capital cycle? What is meant by cash conversion cycle? Why are these concepts important in working capital management?

(b) Do you rccommend that a firm should financc its current assets entirely with short-term financing? Explain your answcr.

4. Attempt any *one* part of the following: 7 x 1 = 7

(a) "Efficient cash management will aim at maximizing the cash inflows and slowing cash outflows". Discuss.

(b) Distinguish betwcen a deposit float and a payment float.What is the advantages and dangers of 'playing the float?'Explain the techniques for managing float.

5. Attempt any *one* part of the following: 7 x 1 = 7

(a) What shall be the effect of the following changes on the level of firm's receivables (i) Interest rate increases (ii) Recession (iii) Production and selling costs increase and (iv) The firm changes it credit terms from"2/10,net 30" to "3/10,nct30.

(b) "The credit policy of a firm is criticized because the bed debt losses have increased."Discuss.

6. Attempt any *one* part of the following: 7 x 1 = 7

(a) "The management of invcntory must mect two opposing nceds."What are they? How is a balance brought in these two opposing needs?

(b) What is a selective control of inventory? Why is it needed? 1llustrate with an example and graph the ABC analysis.

7. Attempt any *one* part of the following: 7 x 1 = 7

(a) What are the features of trade credit as a short-term source of working capital finance? How can the cost of trade credit be calculated?

(b) What is factoring? Give a brief account of the major functions of a factor. Explain the mechanics of factoring.

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