

AP-264

M.B.A. (Semester—III) Examination
WORKING CAPITAL MANAGEMENT
Paper—MBA/3103/F

Time—Three Hours] [Maximum Marks—70

- N.B. :-** (1) Attempt **ALL** questions.
(2) Figure to the right indicates marks.

SECTION—A

1. (a) What do you understand by Receivables Management ? Discuss the factors which influence the size of receivables ?

OR

- (b) What is credit policy ? Discuss costs and benefits associated with the change in credit policy with example. 14

SECTION—B

2. (a) "Efficient cash management will aim at maximizing the availability of cash inflows by decentralizing collections and decelerating cash outflows by centralizing the disbursements" ? Discuss and explain. 7

- (b) Sagar Industries sells its products through widely dispersed distributors in Northern India. It currently takes on an average 8 days for cash receipt cheques to become available to the firm from the day they are mailed. The firm is contemplating the institution of concentration banking to reduce this period. It is estimated that such a system would reduce the collection period of account receivable by 3 days. The daily cheque receipts currently average ₹ 10,00,000.

The concentration banking would cost ₹ 1,50,000 annually and the cost of funds is 15%.

- (i) Advise Sagar whether it should introduce concentration banking system.
- (ii) Will your answer be different, if it is estimated that a lock-box system can reduce the collection time by 4 days and its annual cost would be ₹ 2,00,000.

7

OR

- (c) Explain and discuss the role of marketable securities in cash management.

7

25% of sales are on cash basis. Cash balance expected to be ₹ 1,00,000. Finished goods lie in the warehouse for one month.

You are required to prepare statement of the working capital needed to finance a level of the activity of 54,000 units of output. Assume 360 days in a year for calculation.

14

(ii) Minimum stock level

(iii) Maximum stock level.

7

SECTION—C

5. The cost sheet of PQR Ltd. provides the following data :

	Cost per unit
Raw Material	₹ 50
Direct labour	20
Overheads [including depreciation ₹ 10]	40
Total Cost	110
Profit	20
Selling price	130

Average raw material in stock is for one month. Average material in work-in-progress is for half month [100% material and 50% assume conversion costs]. Credit allowed by suppliers one month. Credit allowed to debtors one month. Average time lay in payment of wages 10 days; Average time lay in payment of overheads 30 days.

- (d) Following information about A Ltd. income and expenditure given :

[Figures in ₹]

Particulars	Purchase	Sales
January	24,000	40,000
February	40,000	32,000
March	48,000	60,000
April	48,000	68,000
May	52,000	68,000
June	48,000	80,000

- (1) Cash at Bank on 1 March is ₹ 60,000.
- (2) 50% of purchase are paid for in the same month. The balance is paid during the next month.
- (3) Sales 40% is one Cash basis. The balance realized in next month.
- (4) Expenses of manufacture come to ₹ 8,000 every month.
- (5) Machine purchase in the month of April of ₹ 12,000; payment for which is made during same month.

Prepare a cash budget for the four months March, April, May and June.

7

3. (a) "Liquidity and Profitability are competing goals for the finance manager." Comment. 7

- (b) The annual cash requirement of Kavin Ltd. is ₹ 1,00,000. The company has marketable securities in lot size of ₹ 5,000; ₹ 10,000; ₹ 20,000; ₹ 25,000 and ₹ 50,000. Cost of conversion of marketable securities per lot is ₹ 100. The company can earn 5% annual 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 the economic lot size can be obtained by Baumol modal. 7

OR

- (c) Discuss reasons of the firm to maintain liquidity. Explain cost of liquidity. 7
- (d) Total Cash requirement ₹ 20,00,000 in next year of SLR Pvt. Ltd. The company's opportunity cost of fund is 12%. The transaction cost ₹ 120 per lot when it converts short-term securities into cash. Determine the optimum cash balance. How much is the total annual cost of the demand for the optimum cash balance ? How many deposits will have to made during the year ? 7

4. (a) Discuss benefits and cost of holding inventories. 7

- (b) A Ltd. is committed to supply 24000 bearings p.a. to B Ltd. on a steady bases. It is estimated that it costs 10 paise as a inventory holding cost per bearing per month and that the set up cost per run of bearing manufacture is ₹ 324. Calculate the following :

- (i) EOQ
- (ii) What would be the interval between two consecutive optimum runs ? 7

OR

- (c) What is the need for holding inventory ? Why inventory management is important ? 7
- (d) The following informations are available in respect of material X :

Re-order quantity = 1800 units

Maximum consumption = 450 units per week

Minimum consumption = 150 units per week

Normal consumption = 300 units per week

Calculate the following :

- (i) Re-order level