

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) Figures to the right indicate marks.

SECTION—A

1. (a) What is meant by 'Working Capital' ? As a management consultant, you are required to state the considerations involved in estimating the amount of the required working capital. 14

OR

- (b) What do you understand by Working Capital Management ? Suggest ways and means to meet the need for working capital in the case of newly started business. 14

SECTION—B

2. (a) "Efficient cash management aims at maximising the cash inflows and anticipating cash outflows." 7
- (b) A company expects to have Rs. 37,500 cash in hand 1.4.2012. And requires you to prepare an estimate of cash position during the three months April to June 2012. The following information is supplied to you :

Months	Sales	purchases	Wages	Factory Exp.	Office Exp.
	Rs.	Rs.	Rs.	Rs.	Rs.
Feb.	75,000	45,000	9,000	7,500	6,000
March	84,000	48,000	9,750	8,250	6,000
April	90,000	52,500	10,500	9,000	6,000
May	1,20,000	60,000	13,500	11,250	7,000
June	1,35,000	60,000	14,250	14,000	7,000

Other Information :

- (1) The period of credit allowed by suppliers 2 months.
- (2) 20% sales is for cash and period of credit allowed to customers for credit sale is one month.
- (3) Delay in payment of all expenses 1 month.

pre-tax return on investment 25%. Some other details are given as under :

Proposed Credit Policy	Average Collection Period (Days)	Expected Annual Sales (Rs. lakh)
I	30	65
II	40	70
III	50	74
IV	60	75

Which Credit Policy should the company adopt ?
Present your answer in tabular form. Assume 360 days in a year.

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(ii) Minimum level

(iii) Re-order level.

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OR

(c) Define Safety Stock. How is it determined ? What is the role of safety stock in inventory management ?

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(d) A manufacturing company purchases 2000 units of a particular material per year at a unit cost of Rs. 20, the ordering cost per order is Rs. 50 and the inventory carrying cost is 25%. Find out Economic order quantity and number of orders to be placed in a year.

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SECTION—C

5. Radiance Garments Ltd. manufactures readymade garments and sells them on credit basis through a network of dealers. Its present sales is Rs. 60 lakh per annum with 20 days credit period. The company is contemplating an increase in the credit period with a view to increasing sales. Present variable costs are 70% of sales and total fixed costs Rs. 8 lakh per annum. The company expects

(4) Income tax of Rs. 57,500 is due to be paid on June 2012.

(5) The company is to pay dividends to shareholders and bonus to workers is Rs. 15,000 and Rs. 22,500 respectively in the month April.

(6) Plant has been ordered and is expected to be received and paid in May. It will cost Rs. 1,20,000.

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OR

(c) Discuss objectives of cash management. Explain motives of cash management.

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(d) The following information is available in respect of trading firm :

(1) On an average, debtors are collected after 45 days; Inventories have an average holding period of 75 days and creditors payment period on an average is 30 days.

(2) The firm spends a total of Rs. 120 lakh annually at a constant rate.

(3) It can earn 10 percent on investments. From the above information compute :

(a) The cash cycle and cash turnover

(b) Minimum amount of cash to be maintained to meet payments as they become due

(c) Saving by reducing the average inventory holding period by 30 days.

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3. (a) Discuss the relative merits of the following models of cash management :

(1) Baumol

(2) Beranek.

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- (b) The Balance Sheet of ABC Ltd. as on dated 31.3.2012 shows as follows :

Liabilities	Rs.	Assets	Rs.
Equity Capital	1,00,000	Fixed Assets	1,80,000
15% Preference share	50,000	Stock	25,000
12% Debenture	50,000	Debtors	55,000
Retained earning	20,000	Bills receivables	3,000
Creditors	45,000	Cash at Bank	2,000
	2,65,000		2,65,000

Calculate :

(1) Current Ratio

(2) Liquidity Ratio.

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OR

- (c) Excess investment in liquid assets affect profitability of the company. Discuss.

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- (d) Silver Chemical Ltd. estimates its total cash requirement at Rs. 2 crore next year. The company's opportunity cost of funds is 15% P.A. The company will have to incur Rs. 150 per transaction when it converts its short term securities to cash. Determine the optimum Cash Balance. How much is the total annual cost of the demand for the optimum Cash Balance ?

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4. (a) What is meant by Inventory Management ? Why is it essential to a business concern ?

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- (b) Re-order quantity = 1500 units

Re-order period = 4 to 6 weeks

Maximum consumption = 400 units per week

Normal consumption = 300 units per week

Minimum consumption = 250 units per week

Calculate the following :

- (i) Maximum level