

AT-1414

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

Time : Three Hours]

[Maximum Marks : 70

Note :—(1) Attempt **ALL** questions.

(2) Figures to the right indicate marks.

SECTION—A

1. (a) What is meant by liquidity ? Discuss in detail important liquidity ratios used to measure liquidity of concern. 14

OR

- (b) Explain various Cash Management models used to derive an optimal Cash balance of a company. 14

SECTION—B

2. (a) Explain meaning of Cash with suitable examples. Discuss various factors determining Cash needs of a firm. 7
- (b) A company is expecting to have Rs. 2,50,000 cash in hand on 1st April 2003 and it requires you to prepare an estimate of cash position during the three months April to June 2003.

Month	Sales (Rs.)	Purchase (Rs.)	Wages (Rs.)	Expenses (Rs.)
February	7,00,000	4,00,000	80,000	60,000
March	8,00,000	5,00,000	80,000	70,000
April	9,20,000	5,20,000	90,000	70,000
May	10,00,000	6,00,000	1,00,000	80,000
June	12,00,000	5,00,000	1,20,000	90,000

Additional Information :

- (a) Period of credit allowed by suppliers two months.
- (b) 25 % of Sale is for Cash and the period of Credit allowed to customer for Credit Sale one month.
- (c) Delay in payment of wages and expenses one month.
- (d) Income Tax Rs. 2,50,000 is to be paid in June 2003. 7

OR

- (c) What do you mean by Cash cycle ? Explain different stages in cash cycle model. 7
 - (d) Royal Industries feels a lock-box system can shorten its accounts receivable collection period by 3 days. Credit sales are estimated at Rs. 365 lakh per year, billed on a continuous basis. The firm's opportunity cost of funds is 15 per cent. The cost of lock box system is Rs. 50,000.
 - (a) Will you advise 'Royal' to go for lock-box system ?
 - (b) Will your answer be different if accounts receivable collection period is reduced by 5 days ? 7
3. (a) Define working capital. Describe various types of working capital. 7
- (b) Details of ABC Ltd. for the year 2007-08, are given as under :

Cost of goods sold	Rs. 48,00,000
Operating cycle	60 days
Min. desired level of cash balance	Rs. 75,000

You are required to calculate the expected working capital requirement by assuming 360 days a year. 7

OR

- (c) Explain Operating cycle approach in determination of working capital. State various factors influencing the working capital requirement of the firm. 7

- (d) X and Y who want to buy a business seek your advice about the average working capital requirements in the first year's trading. The following estimates are available and you are asked to add 10 % to allow for contingencies.

	Rs.
	Per Annum
(1) Average amount locked up in stock :	
Stock of finished goods and WIP	50,000
Stock of stores, materials	80,000
(2) Average Credit given :	
Local sales --- 2 weeks Credit	7,80,000
Outside the State — 6 weeks Credit	31,20,000
(3) Time available for payment :	
For purchases — 4 weeks	9,60,000
For wages — 4 weeks	26,00,000
Calculate the average amount of Working Capital requirements.	7

SECTION—C

4. (a) Why do firms maintain inventory ? Briefly explain various costs associated with inventory. 7
- (b) What is inventory turnover ratio ? Explain its importance. 7

OR

- (c) What is inventory reorder point ? How it is determined ? 7
- (d) What is continuous stock verification ? What are the differences between continuous stock taking and periodic stock taking ? 7

SECTION—D

5. The following are the details regarding the operation of a firm during a period of 12 months.

Sales	Rs. 24,00,000
Selling price per unit	Rs. 20
Variable cost price per unit	Rs. 14
Total cost per unit	Rs. 18

Credit period allowed to customers one month.

The firm is considering a proposal for a more liberal extension of Credit which will result in increasing the average collection period from one month to two months. This relaxation is expected to increase the sales by 25 % from its existing level.

You are required to advise the firm regarding adoption of the new credit policy, presuming that the firm's required return on investment is 25 %.

14