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) Conceptualize working capital and also state the importance of working capital to the business concern. 14

OR

(B) Explain various determinants influencing working capital. And also explain the assessment of working capital requirement. 14

SECTION—B

2. (A) What are the different marketable securities ? Explain. 7

(B) Sarathi and Co. wishes to arrange overdraft facilities with its bankers during the period April to June, when it will be manufacturing mostly for stock. Prepare a cash budget for the above period on the basis of following data :

Months	Sales	Purchases	Wages
Feb.	1,80,000	1,24,800	12,000
Mar.	1,92,000	1,44,000	14,000
Apr.	1,08,000	2,43,000	11,000
May	1,74,000	2,46,000	10,000
June	1,26,000	2,68,000	5,000

Additional information :

(1) 50% of credit sales is realised in the month following the sales and the remaining 50% in the second month following.

(2) Creditors are paid in the month following the month of purchase.

(3) Estimated cash at bank on 1st April Rs. 25,000. 7

OR

(C) What do you understand by cash management ? Explain its objectives. 7

(D) From the following profit and loss account, determine cash from operations :

Dr. Profit and Loss A/c [For the Year 31/03/15] Cr.

Particulars	Rs.	Particulars	Rs.
To Salaries	25,000	By Gross Profit	1,25,000
To Rent	3,000		
To Depreciation	20,000	By Profit on Sale	
To Goodwill W/off	15,000	of Land	15,000
To Provision for Tax	12,000	By Income Tax	
To Net Profit	78,000	Refund	13,000
	1,53,000		1,53,000

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3. (A) Optimum level of cash balances are determined by Benanek Model. Do you agree ? Justify your opinion by giving assumptions of the model. 7

(B) Niyati Ltd. maintains a separate cash disbursement account. Total disbursements are Rs. 1,05,000 per month or Rs. 12,60,000 per annum. Administrative and transaction cost of transfering cash to disbursement account is Rs. 20 per transfer. Marketable securities yield is 8% per annum. Determine the optimum cash balance according to Baumol model. 7

OR

(C) What are the different factors to measure corporate liquidity ? Explain. 7

(D) A Ltd. estimated cash requirement is of Rs. 10,00,000. The company has incurred cost of conversion of marketable securities per lot is Rs. 1,000. Company can earn 5% annual yield on its securities. Determine the economic lot size can be obtained by the Baumol model. 7

SECTION—C

4. (A) Discuss the concept of inventory management and control. 7

(B) Explain ABC model of Inventory Management with the help of suitable examples. 7

OR

(C) What are the benefits of inventory management ? Discuss the cost involved in holding inventories. 7

(D) Explain the concept of Just in Time (JIT) with the help of suitable examples. 7

SECTION—D

5. ABC Ltd. considering the following credit policy alternatives :

Particulars	Existing Policy	Option–I	Option–II
Credit Period (days)	30	41	60
Sales (in Rs. Lakhs)	10.00	9.60	12.00
Bad Debts (% of sales)	5	3.33	6
Cost of Credit Administration (Rs. in Lakhs)	0.20	0.12	0.25
Average Collection Period (days)	45	51	72

The average collection period differs from the credit policy alternatives as all debtors do not strictly adhere to the stipulated condition. Company achieves a contribution of 40% on sales and its requires 20% P.A. return on investment.

You are required to suggest which credit policy is more suitable to the company and why ? 14