Paper Code: MBA FM01	**Roll No.**

M.B.A

(SEM-III) ODD SEMESTER EXAMINATION 2016-17

MANAGEMENT OF WORKING CAPITAL

[Time: 3 hrs] **[Max.Marks:100]**

Note- Attempt all Questions. All Questions carry equal marks.

1. Attempt any four parts of the following: **(5x4=20)**

a) Explain Working Capital Cycle of manufacturing firm.

b) Discuss the Baumol Model for optimum cash management.

c) Write short note on Lock Box System.

d) What are different costs associated with the extension of credit and accounts receivables?

e) What do you understand by Factoring?

2. Attempt any two parts of the following: **(10x2=20)**

a) Critically comment on the following statements:

(i) "Working Capital Management Policies are three dimensional in nature."

(ii) "Profitability and Liquidity are two conflicting issues."

b) What do you understand by working Capital? Explain its Need and Scope. Discuss the different working capital policies.

c) From following information extracted from XYZ Company, Compute the operating cycle in terms of days and the amount of working capital needed for the firm.

Period covered = 365 days, Average credit allowed by supplier = 20 days, Average total of debtors outstanding = 480, Raw Material consumption = 4400, Total production Cost = Rs. 10,000, Total Cost of sales = Rs. 10,500, Sales for Year =Rs. 16,000.

Value of average stock maintained- Raw material = 320, W-I-P = 350, Finished Goods= 260.

3. Attempt any two parts of the following: **(10x2=20)**

a) Discuss in brief the different cash management technique for speedy cash collection and slow disbursement of cash.

b) Describe briefly the prominent marketable securities available for investment.

c) A firm adopts a six monthly life span, subdivided into monthly intervals for its cash budget. Information in respect of its operation (in Rupees lakhs) is given as:

	Months

	1	2	3	4	5	6
Sales	40	50	60	60	60	60
Purchases	1	1.50	2	2	2	1
Direct Labour	6	7	8	8	8	6
Manufacturing Overhead	13	13.5	14	14	14	13
Administrative Expenses	2	2	2	2	2	2
Distribution Expenses	2	3	4	4	4	2
Raw Material (30 days Credit)	14	15	16	16	16	15

Assume the following financial flows during the period:

(i) Inflows –

- Interest received in month 1 and month 6 is Rs 1 lakh each.
- Dividend received during month 3 and month 6 is Rs 2 lakh each.
- Sales of shares in month 6 are Rs 160 lakh.

(ii) ***Outflows –***

- Interest paid during month 1 is Rs 0.4 lakh
- Dividend paid during month 1 and month 4 is Rs 2 Lakh each.
- Installment payment on machine in month 6 is Rs 20 lakh.
- Repayment of loan in month 6 is Rs 80 lakh.

(iii) Assume that 10% of each month's sales are for cash, balance 90%are on credit. The terms and credit experience of the firm are :

- No cash discount
- 1% of credit sales is returned by the customers
- 1% of total accounts receivables is bad debt
- 50% of all accounts that are going to pay do so within 30 days.
- 100% of all accounts that are going to pay do so within 60 days.

Using above information prepare a Cash budget for the firm.

4. Attempt any two parts of the following: (10x2=20)

a) "A firm has to establish and use standards in making credit decisions, develop appropriate sources of credit information and methods of credit analysis." On the basis of above statement explain the two broad dimensions of credit policy decision of firm for management of its receivables.

b) What are different benefits of holding inventory? Explain EOQ technique of inventory management in detail.

c) A company uses annually 4800 units of raw material costing Rs 1.25 per unit. Placing each order cost Rs 45 and carrying cost is 15% of per unit of average inventory. Suppose company follows EOQ purchasing policy and it operates for 300 days per year and procurement time is 12 days with safety stock of 500 units. Find EOQ, Re-order point, Maximum inventory, Minimum inventory and Average inventory.

5. Attempt any two parts of the following: (10x2=20)

a) Explain in brief the important sources of permanent working capital. What are different forms in which banks provide loans and advances?

b) Discuss the finding and recommendation of Dehejia Committee Report and Kannan Committee report

c) Excel Industries Limited is considering its current assets policy. Fixed assets are estimated at Rs. 40, 00,000 and the firm plans to maintain a 50% debt to asset ratio. The interest rate is 14% on all debt. Three alternative current asset policies are under consideration; 40%, 50% and 60% of projected sales. The company expects to earn 20% before interest and tax on sales of Rs. 2, 00, 00,000. The corporate tax rate is 35%. Calculate the expected return on equity under each alternative.