

AS-766

M.B.A. (Semester-III) Examination
WORKING CAPITAL MANAGEMENT (New)
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) Explain various factors influencing working capital. What are the various methods of working capital analysis ? 14

OR

- (B) What do you understand by Working Capital Management ? Discuss the principles of Working Capital Management. 14

SECTION—B

2. (A) What influences the location of the collection points in an over-the-counter system versus a mailed payment system ? 7
- (B) A firm has been offered a cash management services by a bank for Rs. 1,00,000 per year. It is estimated that such a service would not only eliminate 'excess' cash on deposit (Rs. 8,00,000) but also reduce its administration and other cost to the tune of Rs. 5,000 per month. Assuming the cost of capital 15%, is it worthwhile for the firm to engage the cash management service ? 7

OR

- (C) Explain the factors determining the cash balance. 7
- (D) The following results are expected by XYZ Ltd. by quarters next year, in thousands of rupees :

Particulars	Quarter			
	1	2	3	4
Sales	7,500	10,500	18,000	10,500
Cash payments :				
Production cost	7,000	10,000	8,000	8,500
Selling expenses	1,000	2,000	2,900	1,600
Purchase of plant	100	1,100	2,100	2,100

Additional Information :

- (i) The debtors at the end of a quarter are one-third of sales for the quarter.
- (ii) The opening balance of debtors is Rs. 30,00,000.
- (iii) Cash on hand at the beginning of the year is Rs. 6,50,000 and desired minimum balance is Rs. 5,00,000.
- (iv) Borrowings are made at the beginning of quarters in which the need will occur in multiples of Rs. 10,000 and are repaid at the end of quarters.
- (v) Interest charges may be ignored.

You are required to prepare :

- (a) Cash Budget by quarters for the year
- (b) State the amount of loan outstanding at the end of the year. 7

3. (A) Explain the concept of Beranek model. 7

(B) XYZ Ltd. provides the following informations :

	Rs.
Cash Sales during the year	1,50,000
Credit Sales during the year	2,70,000
Return inward	20,000
Trade debtors in the beginning	55,000
Trade debtors at the end	45,000
Provision of doubtful debt	5,000

Calculate :

- (i) Debtor Turnover Ratio
- (ii) Average Collection Period

Note : Assuming 360 days in a year. 7

OR

(C) How liquidity is related to financial flexibility ? 7

(D) Aastha Ltd. estimated cash payment of Rs. 40,00,000 for one month period. The average fixed cost is Rs. 100 and interest rate on marketable securities is 12% per annum or 1% per month. What is the optimum size of cash ? 7

4. (A) Discuss the procedure for ABC analysis. 7
- (B) ABC Ltd. sells 750 bags each year, which it purchases for Rs. 25 each. It costs company Rs. 6 to place an order for bag and 10% to carry them in inventory. Calculate :
- (i) Total cost of inventory policy.
- (ii) How many orders should it place ? 7

OR

- (C) Explain the concept of 'Just in Time' inventory control. 7
- (D) The following figures are taken in materials record of a concern :

2008	Material received (Units)	Price per unit (Rs.)	Material (Issue unit)
1 Jan	400	2.00	
4 Jan	300	2.25	
10 Jan			250
18 Jan	500	2.50	
22 Jan			450
25 Jan	600	3.00	
30 Jan			500

Prepare material ledger by Weighted Average Price Method. 7

SECTION—C

5. EXXON Ltd., has current sales of Rs. 6,00,000 p.a. To push up sales, EXXON is considering a more liberal credit policy as one of the strategies. The current average period of company is 30 days. Proposed increase in collection period and their impact on sales and default rate (on total sale) are given below :

Credit Policy	Increase in Collection Period	Increase in Sales	Default Rate
I	15 days	Rs. 25,000	0.5%
II	30 days	Rs. 60,000	1.0%
III	40 days	Rs. 70,000	2.0%

EXXON is selling its product at Rs. 10 each. Average cost per unit at the current level is Rs. 8 and variable cost per unit Rs. 6. If EXXON requires a rate of return 20% on its investment, which credit policy do you recommend and why ? Assume 360 days a year. 14

