

AU-1606

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 Receivables Management ? Explain its objectives and role of credit policies in receivables management. 14

OR

- (B) Discuss the concept of optimum credit policy. And justify, "the credit policy of a company is criticised because bad debts have increased considerably and the collection period has also increased." 14

SECTION-B

2. (A) Discuss the effects of inadequate working capital to any business house. 7
 (B) From the following information, prepare a statement showing the working capital requirements :

Budgeted Sales (Rs. 10 per unit) Rs. 2,60,000 p.a.

Analysis of Costs	Rs. Per Unit
Raw Material	3.00
Direct Labour	4.00
Overheads	2.00
Total Cost ⇒	9.00
Profit ⇒	1.000
Sales ⇒	10.000

It is estimated that :

- (i) Raw materials are carried in stock for 3 weeks and finished goods for 2 weeks.
- (ii) Factory processing will take 3 weeks.
- (iii) Suppliers will give 5 weeks credit.
- (iv) Customers will require eight (8) weeks credit.

It may be assumed that production and overheads accrue evenly throughout the year. 7

OR

(C) What do you understand by circulating of Current Assets ? Explain. 7

(D) Mr. Kumar who wants to buy a business, seeks your advice about the average working capital requirements in the first year trading. Following estimates are available and you are asked to add 10% to allow for contingencies.

(i) Average amount locked up in stocks :	Rs. Per Annum
Stock of Finished Goods	= 5,000
Stock of Stores Materials	= 8,000
(ii) Average Credit given :	
Local sales-2 weeks credit	= 78,000
Outside State-6 weeks credit	= 3,12,000
(iii) Time for payment :	
For purchase-4 weeks	= 96,000
For wages-2 weeks	= 2,60,000

Determine the average amount of Working Capital required. 7

3. (A) Financial Liquidity is an indicator of financial health of the business concern. Discuss. 7

(B) From the following information of Birla Ltd :

Cash in Hand	2,00,000	Marketable Securities	1,00,000
Cash at Bank	1,00,000	Bills Payable	7,50,000
Sundry Debtors	4,00,000	Goodwill	10,00,000
Inventories	8,00,000	Land and Building	30,00,000
Bills Receivable	4,50,000	Share Capital	9,00,000
Sundry Creditors	4,00,000	Debentures	17,50,000
Bank Overdraft	2,50,000	Prepaid Expenses	3,00,000

Find out :

- (i) Current Ratio
- (ii) Liquid Ratio and
- (iii) Absolute Liquid Ratio.

7

OR

- (C) Explain the concept of Baumol Model. 7
- (D) A limited company requires Rs. 30,00,000 in cash to meet its transaction needs of one accounting year. The annual yield on securities is 5 % and cost of transaction is Rs. 3,000. Determine the optimum amount of cash using Baumol model. 7

SECTION-C

4. (A) Explain the concept of VED analysis with the help of suitable examples. 7
- (B) What do you mean by inventory management ? Explain the factors affecting inventory management. 7

OR

- (C) Explain the concept of Economic Order Quantity along with its usefulness to the business concerns. 7
- (D) Discuss the kinds of inventories with the help of suitable examples. 7

SECTION-D

5. From the following information relating to Sharada Comany Ltd. prepare a Cash Budget for the half year ending on 30 Sept. :

Months	Sales	Purchases	Wages	Overheads
March	1,50,000	90,000	18,000	31,000
April	1,40,000	1,20,000	28,000	35,400
May	1,54,000	84,000	20,800	36,500
June	1,68,000	1,36,000	22,200	37,000
July	1,82,000	1,28,000	30,000	37,000
August	2,04,000	1,51,000	28,000	37,500
September	2,40,000	1,62,000	25,000	38,000

Additional Information :

- (1) Cash balance on 1st April Rs. 60,000.
- (2) The loan installment of Rs. 20,000 per month was to be remitted from July to December.
- (3) Sales commission @ 5 % on sales was to be remitted to the distributors in the month following the sales.
- (4) Rs. 65,000 was expected to be received as deposit from distributors in the month of July.
- (5) 50 % of sales on credit, the period of credit being one month.
- (6) 50 % of the materials purchased can be paid for after a month.
- (7) 25 % of the overheads could be settled in the month following their incidence.
- (8) Wages are paid on the first working day of the following month. 14