



**AR - 1207**

M.B.A. Semester – III

**Paper - MBA / 3103 / F :  
Working Capital Management**

P. Pages : 7

Time : Three Hours

Max. Marks : 70

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- Notes : 1. Attempt All questions.  
2. Figures to the right indicate marks.

**SECTION - A**

1. a) Define 'Accounts Receivable'. What are the objectives of receivable management? **14**  
Discuss the major costs involved in maintaining accounts receivables.

**OR**

- b) What are the credit standards? What key variables should be considered in evaluating possible changes in credit standards? **14**

**SECTION - B**

2. a) Explain primary motives of a firm for maintaining cash balance. **7**

**AR - 1207**

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- b) From the following data, fore cast the cash position at the end of April, May, and June 2004.

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Month	Sales (Rs)	Purchase (Rs)	Wages (Rs)	Miscellaneous (Rs)
February	6,00,000	4,20,000	50,000	35,000
March	6,50,000	5,00,000	60,000	40,000
April	4,00,000	5,20,000	40,000	30,000
May	5,80,000	5,30,000	50,000	60,000
June	4,40,000	4,00,000	40,000	30,000

#### Additional Informations

- 1) Sales : 10% realized in the month of sales; balance realized equally in two subsequent months.
- 2) Purchases : There are paid in the month following the month of supply.
- 3) Wages : 10% paid in arrears following month.
- 4) Miscellaneous expenses : paid a month in arrears.
- 5) Rent : Rs. 5,000 per month paid quarterly in advance due in April.

- 6) Income Tax: first installment of advance tax Rs. 15,000 due on or before 15<sup>th</sup> June.
- 7) Income from Investment: Rs. 30,000 received quarterly in April, July etc.
- 8) Cash in hand : Rs. 30,000 on 1<sup>st</sup> April 2004.

**OR**

- c) Describe prominent marketable securities available for short term investment. **7**
  - d) The following information is available in respect of a trading firm: **7**
    - i) On an average, debtors are collected after 45 days, inventories have an average holding period of 75 days and creditors payment period on an average is 30 days.
    - ii) The firm spends a total of Rs. 120 lakh annually at a constant rate.
    - iii) It can earn 10 per cent on investments.
- From the above information, compute:

- a) The cash cycle and cash turnover,
- b) Minimum amount of cash to be maintained to meet payments as they become due,
- c) Savings by reducing the average inventory holding period by 30 days.

3. a) Explain the significance of current ratio. 7  
How it is used to measure liquidity?

b) You are given the following information: 7

Current liabilities		Current Assets	
Bills payable	2,50,000	Cash in Hand	1,00,000
Sundry Creditors	4,00,000	Cash at bank	1,50,000
Outstanding Expenses	2,00,000	Sundry Debtors	7,50,000
Dividend payable	1,50,000	Stock	6,00,000
		Bills Receivable	3,00,000
		Prepaid Expenses	1,00,000

Calculate :

- a) Current Ratio

- b) Liquid Ratio
- c) Absolute Liquidity Ratio

**OR**

- c) Discuss in detail about William J. Baumol's Mathematical model **7**
- d) The management of popular traders anticipates Rs. 15 lakh in cash outlays (demand) during next year. The recent experience has been that it costs Rs. 30 to convert marketable securities to cash and vice versa. The marketable securities currently earns 8 per cent annual return. Find the total cost of Managing cash according to Baumol Model. **7**

**SECTION - C**

- 4. a) What is inventory? Explain types of inventory and objectives of inventory management. **7**
- b) What is Economic order Quantity? Explain its significance. **7**

**OR**

- c) Define inventory control. Explain the concept of ABC Analysis. **7**
- d) Discuss important techniques usually adopted in different industries for determination of stock level. **7**

**SECTION - D**

- 5.** ABC Ltd, sells goods on a gross profit of 25%. Depreciation is taken into account as part of cost of production. The following are the annual figures given to you: **14**

	Rs.
Sales (two months credit)	36,00,000
Materials consumed (one month credit)	9,00,000
Wages paid (one month lag in payment)	7,20,000
Cash manufacturing expenses (one month lag in payment)	9,60,000
Administration expenses (one month lag in payment)	2,40,000
Selling expenses (paid quarterly in advance)	1,20,000
Income tax payable in 4 installments of which one lies the next year)	3,20,000

The company keeps one months stock each of raw materials and finished goods. It also keeps Rs. 2,00,000 in cash. You are required to estimate the working capital requirements of the company on cash basis assuming 15% safety margin.

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