Name : ....

Roll No. : ....

Invigilator's Signature : ....

CS/MBA (OLD)/SEM-3 (FT) & 5 (PT)/FM-302/2009-10

2009

WORKING CAPITAL MANAGEMENT

Time Allotted : 3 Hours   Full Marks : 70

The figures in the margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable.

GROUP – A
(Multiple Choice Type Questions)

1. Choose the correct alternatives for any *ten* of the following : 10 × 1 = 10

   i) Working capital is also known as

      a) circulating capital   b) revolving capital

      c) operating capital   d) both (a) & (b).

   ii) .... is to measure the short-term solvency of a firm.

      a) Gross profit ratio   b) Net profit ratio

      c) Liquid ratio   d) Price earning ratio.

   iii) Conservation current assets policy indicates

      a) greater liquidity   b) higher risk

      c) poor liquidity   d) moderate risk.

iv) Safety stock is also called as

a) minimum inventory b) buffer stock

c) reserve stock d) all of these.

v) Cash management models, that show the following features such as carrying with transaction cost, opportunity cast are known as

a) Stone model b) Baumol model.

c) Miller-Oor model d) Choice model.

vi) Inventory management is the art of keeping all inventory under lock and key at various places.

a) false b) true

c) in d) none of these.

vii) Overtrading means

a) expanding scale of operations without required cash resources

b) maintaining high inventory

c) means funding current assets by current liabilities

d) means high excessive current ratio over 2 : 1.

viii) If periodic cash inflows are followed by continuous and steady outflows, the corresponding Cash Management Model is

a) Baumol Model b) Beranek Model

c) Bismark-Minto Model d) None of these.

ix) Under the stone model, the future cash flows are

a) predictable

b) unpredictable

c) predictable in the short-run only

d) unpredictable in the short-run.

x) If purchase price of inventory is constantly moving up, inventory valuation as per FIFO method will be at the

a) highest price
b) lowest price

c) cannot be predicted
d) nil (tend to zero).

xi) Which of the following is/are the assumption(s) made under the EOQ model ?

a) The cost of carrying inventories is a fixed percentage of the average value of the inventories

b) The usage of the product is uniform throughout the period

c) The cost per order is constant irrespective of the size of the order

d) The unit price of the raw material will remain constant

e) All of these.

xii) Which of the following statements is *true* with respect to 'float' in the context of cash management ?

a) It is an instrument that may increase the cash inflows

b) It represents the difference between the total cash inflows and total outflows during any given period

c) It is the difference between the actual bank balance and the bank balance in the cash book of the company

d) It means the time required for the encashment of a cheque submitted to a bank

e) It implies the time lag between the public issue and the actual receipt of funds.

GROUP – B

(Short Answer Type Questions)

Answer any *three* of the following. $3 \times 5 = 15$

2. Working Capital Management is essentially a 'risk-return trade off'. Discuss.

3. Critically discuss 'Miller-Orr' model of Cash Management.

4. Write in brief about any two sources of working capital finance.

5. Write short note on Operating Cycle concept of Working Capital.

6. Write in brief about ABC analysis.

GROUP – C

(Long Answer Type Questions)

Answer any *three* of the following. 3 × 15 = 45

7. On April, 1 of the current year, the board of directors of Dowell Ltd., wishes to know the amount of working capital that will be required to meet the programme of activity they have planned for the year. The following information is available :

   i) Issued and paid-up capital, Rs. 2,00,000

   ii) 5% Debentures (secured on assets), Rs. 50,000

   iii) Fixed assets valued at Rs. 1,25,000 on March, 31 of the previous year.

   iv) Production during the previous year was 60,000 units; it is planned that this level of activity should be maintained during the present year.

   v) The expected ratios of cost to selling price are raw materials 60 per cent, direct wages 10 per cent and overheads 20 per cent.

vi) Raw materials are expected to remain in store for an average of two months before these are issued for production.

vii) Each unit of production is expected to be in process for one month. Full unit of raw materials is required in the beginning of production.

viii) Finished goods will stay in warehouse for approximately three months.

ix) Creditors allow credit for 2 months from the date of delivery of raw materials.

x) Credit allowed to debtors is 3 months from the date of dispatch.

xi) Selling price per unit is Rs. 5.

xii) There is a regular production and sales cycle.

Prepare :

a) Working capital requirement forecast; and

b) An estimated Profit and Loss account and Balance Sheet at the end of the year.

8. a) State the various motives of holding cash.

   b) Discuss the various strategies for improving cash flows.

9. a) Explain EOQ Model with and without safety stock. 9

   b) M/s. Alasia International requires 90,000 units of certain items annually. The cost per unit is Rs. 3. The cost per purchase order is Rs. 300 and the inventory carrying cost is Rs. 6 per unit per year.

      i) What is EOQ ? 3

      ii) What should the firm do if the suppliers offer discounts as detailed below ? 3

Order Quantity	*Discount*
4500 and above	2%

10. Write short notes on any *three* of the following : 3 × 5

    i) Working Capital Cycle

    ii) Cash Budgeting

    iii) Components of Working Capital

    iv) Permanent and Temporary Working Capital

    v) Perpetual Inventory Management.

11. a) Discuss the utility of cash budget as a tool of cash management. What are the steps involved in the construction of a cash budget ? 10

b) A firm has been offered a cash management service by a bank for Rs. 1,00,000 per year. It is estimated that such a service would not only eliminate 'excess' cash on deposits (Rs. 8,00,000) but also reduced its administration and other costs to the tune of Rs. 5,000 per month. Assuming the cost of capital of 15%, is it worthwhile for the firm to engage the cash management service ? 5