(3) The materials are expected to remain in the stores for an average period of one month

(4) Finished goods are likely to remain in warehouse for two months before sold.

(5) Each unit of production will be in process for half a month.

(6) 50% of sales will be on credit. Customers are allowed two month's credit.

(7) Credit allowed by suppliers of materials is one month.

(8) Lag in payment of wages is one month. 50% of overheads consists of salaries to non- production staff.

(9) Selling price per unit will be Rs. 200

(10) Assume that sales and production follow a consistent pattern.

(11) Add 20% for contingencies.

A (Printed Pages 8)

Roll No. ____________

MS-3122

M.B.A. (F.C.) (Semester-II)

Examination, 2015

WORKING CAPITAL MANAGEMENT

(FC-021)

Time Allowed : Three Hours *Maximum Marks : 70*

Note : Answer five questions in all. Question No.1 is compulsory. Attempt four more questions selecting one question from each unit.

$3 \times 10 = 30$

1. Answer the following in brief :

(a) Net working capital concept and its components

(b) Conservative and aggressive approach to financing working capital

(c) Types of float and managing float

(d) Costs and benefits of receivables

(e) Trade off between Liquidity and profitability

(f) Credit analysis and credit terms

(g) Ways of decentralised collections

(h) ABC analysis for Inventory management

(i) Commercial paper and guidelines to issue CP in India

(j) Bill Discounting and factoring

Unit- I

2. (a) State and explain the areas which you consider would require the particular attention of the management for effective working capital management. 5

(b) From the following information extracted from the books of a manufacturing Company, compute the operating cycle in days: 5

Period covered-	365 days
Average period of credit allowed by suppliers -	16 days

Other data are as under :	(` in 000)
Average debtors (outstanding)	480
Raw Material consumption	4,400
Total Production costs	10,000
Total cost of sales	10,500
Sales for the year	16,000
Average value maintained :	
of Raw materials	320
of Work -in- progress	350
of finished goods	260

3. Determine the magnitude of working capital from the following particulars of a newly set up company : 10

(1) Production in 2012 is estimated to be 6,000 units

(2) The various elements of costs bear the following relationship to the selling price : Materials-40%, Wages-30%, Overheads-10%

(b) What are credit - rating agencies? List out the various credit rating agencies registered with SEBI. 3

9. Explain in detail the various sources of financing working capital. 10

Unit- II

4. (a) X Ltd has two dates when it receives its cash inflows i.e. 15th Feb. and 16th August. On each of these dates it expects to receive Rs. 15 crore. Cash expenditure are expected to be steady throughout the subsequent six months period. At present ROI in marketable securities is 8% p.a. and cost of transfer from securities to cash in Rs.125 each time a transfer takes place. What is the optimal transfer size using Baumol's model? What is the average cash balance? 5

(b) Briefly explain Miller-Orr model for cash management. What is the advantage of Miller-orr model over the Baumol's model? 5

5. (a) What is receivables management ? What are its objectives? Mention the various steps involved in receivables management. 5

(b) A firm is selling a product currently at Rs.100 per unit. The sales of the firm during the last accounting year were 80,000 units, The variable cost per unit is Rs. 60 and the total costs for 80,000 units is Rs. 80 per unit, firm's fixed costs being Rs 16 lakh. 5

The firm is of the opinion to relax its credit standards and as a result, the firm is expecting 10% increase in sales. But at the same time, by relaxing the credit standards, the average collection period of the firm is likely to increase from 30 days to 45 days . The bad debt losses are expected to be 2% of increased sales. The collection expenses are likely to go up by Rs 50,000, if the after tax reauired rate of rheum on investment of the firm is 15% and tax rate is 50% should the firm relax its credit standard?

Unit- III

6. Discuss in detail the selective inventory management techniques. Also discuss as to why Inventory management is important explaining the items of stock kept by a manufacturing company. 10

7. Given the following information :

Cost per unit (Rs)	20
Annual Requirement (units)	4,000
Carrying cost 10% of the cost per unit	
Ordering cost (Rs)	Rs. 35 per order
Discount 5% on order of 1,000 units	
Discount 7% on order of 2,000 units	

Evaluate the proposal whether to place order as per EOQ or avail discount. 10

Unit- IV

8 (a) Make a comparative study of bank credit follow-up systems as recommended by Tondon committee and Chore committee. 7