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NOIDA INSTITUTE OF ENGINEERING AND TECHNOLOGY, GREATER NOIDA

(An Autonomous Institute Affiliated to AKTU, Lucknow)

MBA

SEM: IV - THEORY EXAMINATION (20..... - 20.....)

Subject: Working Capital Management

Time: 3 Hours

Max. Marks: 100

General Instructions:

IMP: Verify that you have received the question paper with the correct course, code, branch etc.

1. This Question paper comprises of three Sections -A, B, & C. It consists of Multiple Choice Questions (MCQ's) & Subjective type questions.

2. Maximum marks for each question are indicated on right -hand side of each question.

3. Illustrate your answers with neat sketches wherever necessary.

4. Assume suitable data if necessary.

5. Preferably, write the answers in sequential order.

6. No sheet should be left blank. Any written material after a blank sheet will not be evaluated/checked.

SECTION-A

20

1. Attempt all parts:-

- 1-a. Negative Net working capital implies that (CO1,K2) 1
- (a) Long term fund have been used for long term as sets
 - (b) Long term fund have been used for current assets
 - (c) Short term funds have been used for fixed assets
 - (d) Short term funds have been used for current assets
- 1-b. Hedging Approach to working capital deal with (CO1,K2) 1
- (a) Financing of CA
 - (b) Financing of CL
 - (c) Level of CA
 - (d) Level of CL
- 1-c. The Concentration Banking helps in (CO2,K2) 1
- (a) Reducing Idle bank balance
 - (b) Increasing collection
 - (c) Increasing Creditors
 - (d) Reducing bank Transactions
- 1-d. Cheques deposited in a bank may not be available for immediate use due to: (CO2,K3) 1
- (a) Payment Float
 - (b) Receipts Float

- (c) Net float
- (d) Playing the float
- 1-e. A company sell its receivable to another party to raise fund , it is known as (CO3,K2) 1
- (a) Securitization
- (b) factoring
- (c) pledging
- (d) none of the above
- 1-f. The process of 5Cs of the credit does not include (CO3,K2) 1
- (a) Collateral
- (b) Character
- (c) Conditions
- (d) None of the above
- 1-g. Net Operating Cycle is equal to (CO4,K3) 1
- (a) GOC-DP
- (b) GOC+DP
- (c) RMCP+RCP
- (d) RMCP-RCP
- 1-h. EOQ means (CO4,,K2) 1
- (a) Cost of an order
- (b) cost of stock
- (c) reorder level
- (d) optimum order size
- 1-i. Short-term solvency is measured by (CO5,K3) 1
- (a) Liquid Ratio
- (b) Current Ratio
- (c) Both (a) and (b)
- (d) Inventory Ratio
- 1-j. Risk-Return trade off implies (CO5,K4) 1
- (a) Minimization of Risk
- (b) Maximization of Risk
- (c) Ignorance of Risk
- (d) Optimization of Risk
2. Attempt all parts:-
- 2.a. Define the concept "Net working Capital".(CO1,K2) 2
- 2.b. Describe the reasons for holding cash. (CO2,K3) 2
- 2.c. Explain receivable Management. (CO3,K2) 2
- 2.d. Explain Perpetual inventory system. (CO4,K2) 2

2.e. Discuss the objectives of working capital financing. (CO5,K4) 2

SECTION-B 30

3. Answer any five of the following:-

3-a. Explain how working capital management policies affect the profitability for the firm. (CO1,K3) 6

3-b. Discuss the profitability-liquidity trade-off in working capital management. (CO1,K4) 6

3-c. Explain and discuss the role of marketable securities in cash management.(CO2,K4) 6

3-d. Describe the technique of Float Management.(CO2,K4) 6

3.e. Define factoring. Briefly discuss the services provided by a factor. (CO3,K3) 6

3.f. Explain the concept of Re-order level and safety stock. (CO4,K2) 6

3.g. Elaborate various short term sources of working capital.(CO5,K2) 6

SECTION-C 50

4. Answer any one of the following:-

4-a. Prepare an estimate of net working capital requirement for the WCM Ltd. adding 10% for contingencies from the information given below :Estimated cost per unit of production Rs. 170 includes raw materials Rs. 80, direct labour Rs. 30 and overheads (exclusive of depreciation) Rs. 60. Selling price is Rs. 200 per unit. Level of activity per annum 1,04,000 units. Raw material in stock : average 4 weeks; work-in-progress (assume 50% completion stage): average 2 weeks; finished goods in stock : average 4 weeks; credit allowed by suppliers : average 4 weeks; credit allowed to debtors: average 8 weeks; lag in payment of wages : average 1.5 weeks, and cash at bank is expected to be Rs. 25,000. You may assume that production is carried on evenly throughout the year (52 weeks) and wages and overheads accrue similarly. All sales are on credit basis only. You may state your assumptions, if any. (CO1,K5) 10

4-b. As a finance manager, what factors would you consider while estimating working capital requirements of a firm? (CO1,K3) 10

5. Answer any one of the following:-

5-a. Discuss the role of marketable securities in fulfilling the firms' overall objective of maximising its owner's wealth? (CO2,K4) 10

5-b. The following forecasts have been made for Alex Ltd for the period January to April,2014. 10

Particulars	January	February	March	April
Sales	75000	105000	180000	105000
Raw Material	70000	100000	80000	85000
Manufacturing Expenses	10000	20000	29000	16000
Loan Installment	1000	11000	21000	21000

Additional Information:

- I. All the sales are made on credit basis . 2/3 of debtors are collected in the same month and balance in the next month. There is no expected bad debt. The debtors on January 1, 2014 were Rs 30000.
- II. The minimum cash balance, the firm must have is estimated to be Rs 5000, the cash balance on January 1 was Rs 6500.
- III. Borrowing if any, can be made in multiples of Rs 100 only.

Prepare a cash budget for the period of four months (Ignore interest on borrowing) (CO2,K5)

6. Answer any one of the following:-

- 6-a. Discuss the nature, cost of maintaining receivables and objectives of receivables management. (CO3,K4) 10
- 6-b. "The credit policy of a company is criticized because the bad debts losses have increased considerably and the collection period has also increased". Discuss under what condition this criticism may not be justified,(CO3,K4) 10

7. Answer any one of the following:-

- 7-a. A company purchases a component of a product at the rate of Rs. 50 per piece. The annual consumption of that component is 25,000 pieces. If the ordering cost is Rs.230 per order and carrying cost is 20 per cent per annum, estimate EOQ, no. of orders to be placed per year ,total ordering and carrying cost? (CO4,K5) 10
- 7-b. Analyse various techniques of managing inventory. (CO4,K4) 10

8. Answer any one of the following:-

- 8-a. Examine the significance of the recommendations made by Tandon, Chore and Dehejia committee on working capital lending practices (CO5,K4) 10
- 8-b. Analyse various short-Term Financial Instruments for Working Capital financing . (CO5,K4) 10