

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

NOIDA INSTITUTE OF ENGINEERING AND TECHNOLOGY, GREATER NOIDA**(An Autonomous Institute Affiliated to AKTU, Lucknow)****MBA****SEM: IV - THEORY EXAMINATION (2022-2023)****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. Which of the following statements is not true with respect to the matching strategy? (CO1) 1
- (a) All assets should be financed with permanent long term capital.
 - (b) Temporary current assets should be financed with temporary working capital.
 - (c) Permanent current assets should be financed with permanent working capitals.
 - (d) Long term assets should be financed from long term capital.
- 1-b. Which of these methods is NOT used for calculating the working capital cycle? (CO1) 1
- (a) Percentage of sales method
 - (b) Operating cycle approach
 - (c) Trial and error method
 - (d) None of the above
- 1-c. Concentration banking (CO2) 1

- (a) increases idle balances
 - (b) moves excess funds from a concentration bank to regional banks
 - (c) is less important during periods of rising interest rates
 - (d) improves control over corporate cash.
- 1-d. Which of the following marketable securities is the obligation of a commercial bank? (CO2) 1
- (a) Commercial paper
 - (b) Negotiable certificate of deposit
 - (c) Repurchase agreement
 - (d) T-bills
- 1-e. 5Cs of the credit does not include (CO3) 1
- (a) Collateral
 - (b) Character
 - (c) Conditions
 - (d) None of the above
- 1-f. Credit Policy of a firm should involve a trade-off between increased (CO3) 1
- (a) Sales and Increased Profit
 - (b) Profit and Increased Costs of Receivables
 - (c) Sales and Cost of goods sold
 - (d) None of the above.
- 1-g. The cost of insurance and taxes are included in (CO4) 1
- (a) Cost of ordering
 - (b) Set up cost
 - (c) Inventory carrying cost
 - (d) Cost of shortages
- 1-h. Re-ordering level is calculated as (CO4) 1
- (a) Maximum consumption rate x Maximum re-order period
 - (b) Minimum consumption rate x Minimum re-order period
 - (c) Maximum consumption rate x Minimum re-order period
 - (d) Minimum consumption rate x Maximum re-order period
- 1-i. In deciding the optimal level of current assets for the firm, management is confronted with _____. (CO5) 1
- (a) a trade-off between profitability and risk

- (b) a trade-off between liquidity and risk
- (c) a trade-off between equity and debt
- (d) a trade-off between short-term versus long-term borrowing

- 1-j. The type of collateral (security) used for short-term loan is (CO5) 1
- (a) Real estate
 - (b) Plant & Machinery
 - (c) Stock of good
 - (d) Equity share capital

2. Attempt all parts:-

- 2.a. Define Gross working capital.(CO1) 2
- 2.b. Explain motives for Holding Cash (CO2) 2
- 2.c. Explain Credit Terms.(CO3) 2
- 2.d. Differentiate between ordering and carrying cost. (CO4) 2
- 2.e. Explain sources of Short term financing.(CO5) 2

SECTION B

30

3. Answer any five of the following:-

- 3-a. Explain factors determining working capital requirements. (CO1) 6
- 3-b. A firm's net working capital situation not only is significant from an internal standpoint; it also is widely used as one measure of the firm's risk. Validate this statement. (CO1) 6
- 3-c. Explain the principles of cash management. (CO2) 6
- 3-d. How is optimum cash balance maintained? (CO2) 6
- 3.e. Describe the approaches to credit risk measurement. (CO3) 6
- 3.f. Explain the concept of Re-order level and safety stock. (CO4) 6
- 3.g. Discuss the recommendations of Chore committee. (CO5) 6

SECTION C

50

4. Answer any one of the following:-

- 4-a. A firm's net working capital is occasionally defined as the portion of current assets financed with long-term funds; show diagrammatically why this meaning is valid? (CO1) 10
- 4-b. The Board of Directors of Ruby Ltd. requests you to prepare a statement showing the working capital requirements forecast for a level of activity of 1,56,000 units of production. The following information is available for your 10

calculation: (CO1)

- (a) Raw materials are in stock on average one month.
- (b) Materials are in process, on average 2 weeks.
- (c) Finished goods are in stock, on average one month.
- (d) Credit allowed by suppliers – one month.
- (e) Time lag in payment from debtors – 2 months.
- (f) Lag in payment of wages – 2 weeks.
- (g) Lag in payment of overheads – one month.

20% of the output is sold against cash. Cash in hand and at bank is expected to be Rs. 60,000. It is to be assumed that production is carried on evenly throughout the year. Wages and overheads accrue similarly and a time period of 4 weeks is equivalent to a month.

5. Answer any one of the following:-

- 5-a. Elucidate upon the Baumol's Model with the help of examples. (CO2) 10
- 5-b. Prepare Cash Budget of a Company for April, May and June 2019 in a columnar form using the following information: (CO2) 10

Month	Sales	Purchase	Wage	Exp.
Jan. (Actual)	80,000	45,000	20,000	5,000
Feb. (Actual)	80,000	40,000	18,000	6,000
March (Actual)	75,000	42,000	22,000	6,000
April Budget	90,000	50,000	24,000	6,000
May Budget	85,000	45,000	20,000	6,000
June Budget	80,000	35,000	18,000	5,000

You are further informed that:

- (a) 10% of purchase and 20% of Sale are for cash
- (b) The average collection period of the Co. is 1/2 month and credit purchase is paid off regularly after one month
- (c) Wages are paid half monthly and the rent of Rs.500 excluded in expense is paid monthly
- (d) Cash and Bank Balance on April 1, was Rs.15,000 and the company wants to keep it on end of every month below this figure, the excess cash being put in fixed deposits.

6. Answer any one of the following:-

- 6-a. Discuss the credit Management as an integral activity of a firm. (CO3) 10

6-b. Discuss the effects of liberal versus stiff credit standards. (CO3) 10

7. Answer any one of the following:-

7-a. Explain the ABC, VED and HML analysis technique of inventory management. (CO4) 10

7-b. Holmes Ltd manufacture only one product 'A'. 10
The single raw material used in making of 'A' is 'Y'.
For each unit of A manufactured 12 units of Y are required.
Assuming that the company manufactures 15000 units per annum,
that the demand for the A is perfectly steady throughout the year,
that it costs Rs 200 each time order is placed for Y and that the carrying cost
are Rs 8 per unit of Y per year.
You are required to answer following.
What is EOQ of Y? What are total costs of inventory for the quantity?
How many times per year would inventory be ordered? (CO4)

8. Answer any one of the following:-

8-a. Examine the various procedures and norms for working capital finance by banks in India. (CO5) 10

8-b. Examine the significance of the recommendations made by Tandon Committee on cash management. (CO5) 10