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NOIDA INSTITUTE OF ENGINEERING AND TECHNOLOGY, GREATER NOIDA
(An Autonomous Institute Affiliated to AKTU, Lucknow)
M.B.A.

SEM: IV - THEORY EXAMINATION (2021 - 2022)

Subject: Working Capital Management

Time: 3 Hours

Max. Marks: 100

General Instructions:

1. The question paper comprises three sections, A, B, and C. You are expected to answer them as directed.
2. Section A - Question No- 1 is 1 mark each & Question No- 2 carries 2 mark each.
3. Section B - Question No-3 is based on external choice carrying 6 marks each.
4. Section C - Questions No. 4-8 are within unit choice questions carrying 10 marks each.
5. No sheet should be left blank. Any written material after a blank sheet will not be evaluated/checked.

SECTION A

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1. Attempt all parts:-

- | | | |
|------|---|---|
| 1-a. | Which of the following would not be financed from working capital? (CO1) | 1 |
| | (a) Cash float. | |
| | (b) Accounts receivable | |
| | (c) Credit sales. | |
| | (d) A new personal computer for the office. | |
| 1-b. | Below are all components of working capital except: (CO1) | 1 |
| | (a) Cash | |
| | (b) Marketable securities | |
| | (c) Inventories | |
| | (d) Note payable | |
| 1-c. | Commercial paper is essentially. (CO2) | 1 |
| | (a) another term for a junk bond. | |
| | (b) a short-term unsecured corporate IOU | |
| | (c) an intermediate-term corporate bond. | |
| | (d) a certificate that may be exchanged for a share of common stock at a specified future date. | |
| 1-d. | That portion of a firm's total marketable securities portfolio held to take care of probable deficiencies in the firm's cash account. (CO2) | 1 |
| | (a) Free cash segment | |
| | (b) Controllable cash segment | |
| | (c) Ready cash segment | |
| | (d) None of the above | |
| 1-e. | Which of the following is not an element of credit policy? (CO3) | 1 |
| | (a) Credit Terms | |
| | (b) Collection Policy | |
| | (c) Cash Discount Terms | |
| | (d) Sales Price. | |
| 1-f. | Out of the following, what is not true in respect of factoring? (CO3) | 1 |
| | (a) Continuous Arrangement between Factor and Seller | |
| | (b) Sale of Receivables to the factor | |
| | (c) Factor provides cost free finance to seller | |

- (d) None of the above
- 1-g. The following classes of costs are usually involved in inventory decisions except. (CO4) 1
- (a) Cost of ordering
 - (b) Carrying cost
 - (c) Cost of shortages
 - (d) Machining cost
- 1-h. The order cost per order of an inventory is Rs 400 with an annual carrying cost of Rs 10 per unit. 1
- Calculate the Economic Order Quantity (EOQ) for an annual demand of 2000 units. (CO4)
- (a) 400
 - (b) 440
 - (c) 480
 - (d) 500
- 1-i. The amount of current assets required to meet a firm's long-term minimum needs is referred to as _____ working capital. (CO5) 1
- (a) permanent
 - (b) temporary
 - (c) net
 - (d) gross
- 1-j. Concept of Maximum Permissible Bank finance was introduced by. (CO5) 1
- (a) Kannan Committee
 - (b) Chore Committee
 - (c) Nayak Committee
 - (d) Tandon Committee

2. Attempt all parts:-

- 2.a. Explain the Working capital management. (CO1) 2
- 2.b. Explain the standard features of marketable securities. (CO2) 2
- 2.c. Explain The elements of credit policy. (CO3) 2
- 2.d. Define the concept of safety stock. (CO4) 2
- 2.e. Discuss the applications of cost benefit analysis. (CO5) 2

SECTION B

30

3. Answer any five of the following:-

- 3-a. Do you think that a sufficient working capital enables a firm to exploit of positive market conditions? Support your answer with appropriate reasons. (CO1) 6
- 3-b. Explain the techniques that are used for planning and control of working capital management. (CO1) 6
- 3-c. Explain the motives of a company behind holding the cash. (CO2) 6
- 3-d. Discuss the miller-orr model for determining the cash balance for the firm. (CO2) 6
- 3.e. Critically examine factoring in accounts receivables management. (CO3) 6
- 3.f. Explain the considerations governing the maximum and minimum level of inventory. (CO4) 6
- 3.g. Describe the Authorized Capital, Issued Capital, Subscribed Capital and Paid up Capital. (CO5) 6

SECTION C

50

4. Answer any one of the following:-

- 4-a. As a finance manager, what factors would you consider while estimating working capital requirements of a firm? (CO1) 10
- 4-b. The cost sheet of POR Ltd. Provides the following data: (CO1) 10

	Cost per unit (Rs.)
Raw Material	50
Direct Labour	20
Overheads (including depreciation of Rs. 10)	40
Total Cost	110
Profits	20
Selling Price	130

Average raw material in stock is for one month. Average material in work-in-progress is for half month. Credit allowed by supplier : one month; credit allowed to debtors: one month. Average time lag in payment of wages:10 days. Average time lag in payment of overheads: 30 days. 25% of the sales are on cash basis. Cash balance expected to be Rs1,00,000. Finished goods remained in the ware house for 1 month.

You are required to prepare a statement of working capital needed to finance a level of activity for 54,000 units of output. Production is carried on evenly throughout the year and wages and overhead accrue similarly. State your assumptions if any, clearly.

5. Answer any one of the following:-

5-a. "It is normal for the finance manager to place great importance on the cash budget in determining the desirable cash holdings for a company." How did Beranek utilize this approach to develop a model suitable for determining the company's optimal cash balance? (CO2) 10

5-b. Annual sales of Modern company is 16000 units @ Rs. 50 per unit. Its variable cost is Rs 30 per unit and fixed cost Rs 160000 per year. The company is considering to relax its credit policy. This will increase its sales by 20% and average collection period will increase from 30 days to 45 days. Bad debts are expected at 3% on increase in sales and collection charges will increase by Rs 20000. If required rate of return on investments is 15% after tax and rate of tax is 40%, will it be fair to relax the credit policy? Support your answer with required calculations. (CO2) 10

6. Answer any one of the following:-

6-a. Explain the 6 C's for analysis of credit related information of a customer. (CO3) 10

6-b. Explain the importance of monitoring of credit policy and its process. (CO3) 10

7. Answer any one of the following:-

7-a. Explain the need for monitoring and controlling the inventories. (CO4) 10

7-b. At its year-end, Crocodile Ltd. has 600 items of product A and 2,000 of product B, costing Rs10 and Rs 5, respectively. The following information is available:
500 items of product A are defective and can only be sold at Rs 8 each. 100 items of product B are to be sold for Rs 4.50 each with selling expenses of Rs1.50 each. What figure should appear in Crocodile's statement of financial position for the inventory? (CO4) 10

8. Answer any one of the following:-

8-a. Evaluate the role of commercial banks in industrial finance in India. (CO5) 10

8-b. XYZ Co. Ltd. is a pipe manufacturing company. Its production cycle indicates that materials are introduced in the beginning of the production cycle; wages and overhead accrue evenly throughout the period of the cycle. Wages are paid in the next month following the month of accrual. Work-in-process includes full units of raw materials used in the beginning of the production process and 50% of wages and overheads are supposed to be conversion costs. Details of production process and the components of working capital are as follows:

Production of pipes 12,00,000 units.
Duration of the production cycle One month.
Raw materials inventory held one month consumption.
Finished goods inventory held for Two months.
Credit allowed by creditors One month.
Credit given to debtors Two months.
Cost price of raw materials Rs 60 per unit.

Direct wages Rs 10 per unit.
Overheads Rs 20 per unit.
Selling price of finished pipes Rs 100 per unit.

Calculate:

- (a) The amount of working capital required for the company.
- (b) The maximum permissible bank finance under all the three methods of lending norms as suggested by the Tandon Committee, assuming the value of core current assets of Rs 1,00,00,000. (CO5)