

MANAGEMENT PROGRAMME

Term-End Examination

December, 2017

01201

MS-041 : WORKING CAPITAL MANAGEMENT

Time : 3 hours

Maximum Marks : 100

(Weightage 70%)

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- Note :** (i) *Attempt any five questions.*
(ii) *All questions carry equal marks.*
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1. Describe the different types of working capital. How does their behaviour change over a period of time in diverse firms affected by seasonal and cyclical variations in production and sales ? Discuss the impact of inflation on any two components of working capital.
2. Explain the operating cycle method used for computing working capital requirements ? What are other factors that influence the determination of working capital ?
3. Why is cash forecasting important ? Which methods are used for cash forecasting ? How can firms recognize and manage the uncertainty in cash flow forecast ?
4. What do you understand by the term 'Payables' ? Explain the significance of payables and the determinants of payables ?

5. (a) Discuss the Norms for Inventories and receivables as laid down by the maximum permissible Bank Finance system for credit appraisal. Explain their significance.
- (b) What do you understand by syndication of credit ? Discuss its salient features.
6. Distinguish between :
- (a) Discounting of bills and factoring of receivables.
- (b) Commercial Paper and Public Deposits
- (c) Bank rate and Prime Lending Rate.
7. ABC Ltd. uses inventory turnover method as one of the measures to evaluate the performance of its production manager, currently its inventory turnover is ten times per year compared with an industry average of four. Average sales are ₹ 4,50,000 per year. Variable costs of inventory have consistently remained at 70% of sales with fixed costs of ₹ 10,000, carrying costs of inventory (excluding financing costs) are 5 percent annually sales force has complained that low inventory levels are resulting in lost sales due to stockouts. Sales manager has made an estimate based on stock-out reports as indicated below :

| Inventory policy | Inventory Turnover | Sales (₹, 000) |
|------------------|--------------------|----------------|
| Current | 10 | 450 |
| Q | 8 | 500 |
| R | 6 | 540 |
| S | 4 | 565 |

Assume 46% tax rate and an after tax required rate of return of 16% on investment in inventory. On the basis of these estimates which inventory policy would you recommend ?

8. Write short notes on any four of the following :
- (a) Operating Cycle
 - (b) Decision Tree Model
 - (c) Inter Corporate Loans
 - (d) Leading and Lagging
 - (e) Return on Assets
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