MS-41

MANAGEMENT PROGRAMME

Term-End Examination

June, 2012

04851

MS-41 : WORKING CAPITAL MANAGEMENT

Time : 3 hours *Maximum Marks : **100***

(Weightage 70%)

Note : *Attempt **any Five** questions. All questions carry **equal** marks. Use of calculators is allowed.*

1. Discuss distinguishing features of working capital decisions. Explain with help of illustrations different risks inherent in working capital management.

2. (a) Explain "Off balance-sheet financing".

   (b) The following results are expected by XYZ Ltd. by quarters next year, in thousands of rupees :

	Quarter			
	1	2	3	4
Sales	7,500	10,500	18,000	10,500
Cash Payments :				
Production costs	7,000	10,000	8,000	8,500
Selling, administrative other costs	1,000	20,000	2,900	1,600
Purchases of plant and other fixed assets	100	1,100	2,100	2,100

The debtors at the end of a quarter are one-third of sales for the quarter. The opening balance of debtors is Rs. 30,00,000. Cash on hand at the beginning of the year is Rs. 6,50,000 and the desired minimum balance is Rs. 5,00,000. Borrowings are made at the beginning of quarters in which the need will occur in multiplies of Rs. 10,000 and are repaid at the end of quarters. Interest charges may be ignored. You are required to prepare :

(i) a quarterly cash budget for the year; and

(ii) state the amount of loan outstanding at the end of the year.

3. (a) What do you understand by credit - worthiness of a borrower ? What factors are taken into account to determine credit worthiness ?

(b) What is meant by Cash Credit System ? Explain its important merits and demerits.

4. What do you understand by factoring of Receivables ? How does it help in working capital management ? Discuss its mechanism and distinguish between with Recourse and without Recourse factoring.

5. (a) Zion Limited expects its cash flows to behave in a random manner, as assumed by the Miller and Orr model. Zion wants you to establish the 'return point' and the 'upper control limit'. It provides the following information :

   - Annual yield on marketable securities as 10 per cent.
   - The fixed cost of effecting a marketable securities transaction is Rs. 2500.
   - The standard deviation of the change in daily cash balance is Rs. 10,000.
   - The management wants to maintain a minimum cash balance of Rs. 2,00,000.

   (b) Discuss important features of Credit Management of a big corporate house.

6. (a) Explain ABC analysis of inventory Management.

   (b) Discuss different ratios, with illustrations, which can be used to measure effectiveness of inventory management.

   (c) The finance department of Prashant Textile Corporation gathered the following information :

      (i) The carrying cost per unit of inventory is Rs. 10.

(ii) The fixed cost per order is Rs. 20.

(iii) The number of units required is 30,000 per year.

(iv) The variable cost per unit ordered is Rs. 2.

(v) The purchase cost price per unit is Rs. 30.

Determine the economic order quantity (EOQ), total number of orders in a year, and the time-gap between two orders.

7. (a) Discuss selection criterion for "marketable securities".

(b) Ocean Co. Ltd. currently makes all sales on credit and offers no cash discount. It is considering a 2 per cent cash discount for payment within 10 days. The firm's current average collection period is 60 days, sales are 2,00,000 units, selling price is Rs. 30 per unit, variable cost per unit is Rs. 20 and average cost per unit is Rs. 25 at the current sales volume.

It is expected that the change in credit terms will result increase in sales to 2,25,000 units and the average collection period will fall to 45 days. However, due to increased sales, increased working capital required will be Rs. 1,00,000 (it does not take into account the effect on debtors). Assuming that 50 per cent of the total sales will be on cash discount and 20 percent is the required return on investment, should be proposed discount be offered ?

8. Discuss the various measures of profitability and explain the relationship between profitability and working capital.