

02814

## MANAGEMENT PROGRAMME

### Term-End Examination

June, 2013

### MS-41 : WORKING CAPITAL MANAGEMENT

Maximum Marks : 100

Time : 3 hours

(Weightage : 70%)

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

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1. Explain the concept of working capital and mention the important objectives of working capital management. Discuss the impact of inflation on working capital.
2. Explain the walker's approach to investment in working capital. Explain the profitability - solvency tangle in the current asset holding.
3. Household Appliances Ltd. deals with consumer durables having an annual turnover of Rs.80 lakhs, 75% of which are credit sales effected through a large number of dealers, while the balance sales are made through show rooms on cash basis. Normal credit allowed is 30 days. The

company proposes to expand its business substantially and there is good demand as well. The finance manager proposes the following two plans for a change in the credit policy :

Proposal	Credit Period	Anticipated Credit Sales Rs. lakhs
Plan I	60 days	70
Plan II	90 days	75

The product yields an average contribution of 25% on sales. Fixed costs amount of Rs. 5 lakhs per annum. The company expects a pre-tax return of 20% on capital employed. The finance manager has also recommended increasing the provision for bad debts from the current 1% to 1.5% for Plan I and to 2% for Plan II. Evaluate the merits of the new proposals and recommend the best proposal.

4. Explain the Baumol's model and Miller - orr cash management models.
5. Write short notes on the following :
  - (a) Prudential norms for credit exposure limit for banks.
  - (b) Discounting of bills
  - (c) Syndication of credit
  - (d) Bridge loans

6. (a) What is meant by Commercial Paper ? Explain the guidelines issued by Reserve Bank of India for the issuance of commercial paper by companies.
- (b) What is factoring of Receivables ? Explain its mechanism and importance.
7. Explain the cost of liquidity and illiquidity. What is the impact of these costs on the level of the current assets ?
8. Discuss the types and determinants of trade credit. What are the costs involved in taking credit ?
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