MS-41

MANAGEMENT PROGRAMME

04194

Term-End Examination

June, 2011

MS-41 : WORKING CAPITAL MANAGEMENT

Time : 3 hours | *Maximum Marks : 100*
(Weightage 70%)

Note : *Attempt **any Five** questions. All questions carry **equal** marks.*

1. Explain the distinguishing features of matching, conservative and aggressive strategies for financing working capital with the help of illustrations. Under which circumstances each of these are suitable ?

2. Discuss the critical variables of Cash flow forecasting and the different forecasting approaches of cash flow.

3. Write notes on :
(a) Commercial Bill market
(b) Commercial Paper.

4. Discuss the features of 'Factoring' and 'company deposits' as source of working capital finance. Why is factoring yet to be popular in India ? Give reasons.

5. Omega Ltd. has investigated its cost of funds and their Profitability and found that current assets earn six percent where as fixed assets earn 13 percent. Cost of current liabilities is three percent and average cost of long term funds is 10 percent. The current year balance sheet reveals the following information.

(Rs. in thousand)

Liabilities	**Rs.**	**Assets**	**Rs**
Share capital	20,000	Plant and Machinery	30,000
Term loans	50,000	Land and Building	30,000
Bank overdraft	7,000	Stock	10,000
Payables	3,000	Cash in Bank and Hand	10,000
	80,000		80,000

You are to comment on overall profitability of Omega Ltd.

The company proposes to lower its net working capital to Rs 7,000 by (a) either shifting Rs 3,000 of its long term loans to bank overdraft or (b) buying one more machine by paying cash. You are to suggest which of these two alternatives should be preferred and why. Do you approve of implementing both the alternatives simultaneously.

6. (a) How would you assess the credit worthiness of a customer ?

(b) A company is manufacturing spare parts and selling it at Rs 10 per unit. Variable cost is Rs 7 per unit. Total sale of a year is 2,40,000 units with per unit cost of production Rs 9. As per present credit policy company allows a credit of 2 months with a 3 percent default and expense of Rs 50,000 for collection. The company has two proposals for replacing the present credit policy with following details.

Proposals	Credit period	Collection Expense	Default %
X	1.5 month	Rs. 75,000	2
Y	1 month	Rs. 1,50,000	1

If the company has a required rate of return of 20 percent which of the two programmes the company should adopt.

7. What is the significance of Inventory control ? Discuss the different models of inventory management.

8. Discuss the relationship between liquidity and profitability and explain how it is measured.