



MBA (FT) III/11.14.1065

Reg. No. 85213039

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MBA (FT) DEGREE III SEMESTER EXAMINATION NOVEMBER 2014

SMS 2317 WORKING CAPITAL MANAGEMENT
(2012 Scheme)

Time: 3 Hours

Maximum Marks: 50

PART A
(Answer *ALL* questions)

(5 x 2 = 10)

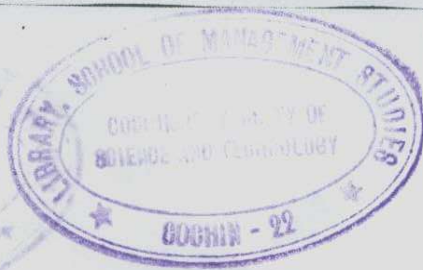
- ✓ 1. Define working capital.
- ✓ 2. What do you mean by cash management?
- ✓ 3. How is receivables management useful to business concerns?
- ✓ 4. What is money market?
- ✓ 5. A manufacturing company uses ₹1,00,000/- worth of material per year. The administration cost per purchase is ₹100/- and carrying cost is 20% of the average inventory. Calculate the EOQ for the company. Unit cost of material is ₹20/-.

PART B
(Answer *ANY FIVE* questions)

(5 x 4 = 20)

- ✓ 6. What are the advantages of adequate working capital?
- ✓ 7. State the options available to a firm for investing surplus cash.
8. Sindhu company expects its cash flows to behave in a random manner, as assured by the Miller and Orr model. Sindhu wants you to establish the 'upper control limit' and the return point. It provides the following information as requested by you.
 - ❖ the annual yield on marketable securities is 12 per cent.
 - ❖ the fixed cost of effecting a marketable securities transaction is ₹1,500/-.
 - ❖ the standard deviation of the change in daily cash balance is ₹6,000/-
 - ❖ the management of Sindhu would like to maintain a minimum cash balance of ₹1,00,000/-.
- ✓ 9. Modern Electrical Stores is trying to determine the EOQ for a certain type of transformer. The firm sells 2500 numbers of this transformer annually at a price of ₹20,000/- per piece. The purchase price per transformer to the firm is, however, ₹15,000/-. The cost of carrying a transformer is ₹300/- per year and the cost of placing an order is ₹2,000/-.
 - (i) What is the total cost associated with placing one, two, five and ten orders per year?
 - (ii) What is the EOQ?

(P.T.O.)



- ✓ 10. What are the effects of liberal versus stiff credit standards?
- ✓ 11. Explain the criteria for judging the inventory system.
12. What are the factors examined by a bank while processing an application for working capital advance?

PART C
(Answer *ANY TWO* questions)

(2 x 10 = 20)

13. The Board of Directors of Manju Engineering Company (P) Ltd. requests you to prepare a statement showing the working capital requirements for a level of activity of 1,56,000 units of production.

The following information is available for your calculations.

(A)	Per Unit (₹)
Raw materials	9,000
Direct labour	4,000
Overheads	7,500

Profit	20,500
	6,000

Selling price per unit	26,500

- (B)
- (i) Raw materials are in stock, on an average one month.
 - (ii) Materials are in process, on average two weeks.
 - (iii) Finished goods are in stock, on average one month.
 - (iv) Credit allowed by suppliers, one month.
 - (v) Time lag in payment from debtors, two months.
 - (vi) Lag in payment of wages, 1½ weeks.
 - (vii) Lag in payment of overheads is one month.

20% of the output is sold against cash. Cash in hand and at bank is expected to be ₹60,00,000/-. It is to be assumed that production is carried on evenly throughout the year, wages and overheads accrue similarly and a time period of 4 weeks is equivalent to a month.

14. The Austin Corporation currently provides 45 days of credit to its customers. Its present level of sales is ₹15 crores. The firm's cost of capital is 15 per cent and the ratio of variable costs to sales is 0.80. The firm is considering extending its credit period to 60 days such an extension is likely to push sales up by ₹1.5 crores. The bad debts proportion on additional sales would be 5 per cent. The tax rate is 45 per cent.

What will be the effect of lengthening the credit period on the next profit of the firm?

15. Describe various instruments of the international money market and explain how short term international transactions are managed.