MBA F.3/09.14

MBA DEGREE (F.T) III SEMESTER EXAMINATION, NOVEMBER 2009

SMS 2314 WORKING CAPITAL MANAGEMENT

Maximum. Marks : 50

Time : 3 Hours

(All questions carry ***EQUAL*** marks)

(5 x 10 = 50)

I. A. Explain briefly the factors which are to be taken into consideration while planning the working capital requirement of a company.

OR

B. Alpha Ltd. is engaged in large scale customer retailing. From the following information, you are required to forecast its working capital requirements for the year 2009 – 10.

Projected annual sales	-	Rs. 65 lakhs
Percentage of net profit on cost of sales	-	20%
Average credit allowed to debtors	-	10 weeks
Average credit allowed to creditors	-	4 weeks
Average stock carrying (in terms of sales requirements)	-	8 weeks.

Add 10% to computed figures to allow for contingencies.

II. A. Explain different kinds of float with reference to management of cash.

OR

B. The annual cash requirement of X Ltd..is Rs.10 lakhs. The company has marketable securities in lot sizes of Rs.50,000, Rs.1,00,000, Rs.2,00,000, Rs.2,50,000 and Rs.5,00,000. Cost of conversion of marketable securities per lot is Rs.1000. The company can earn 5% annual yield on its securities.

You are required to prepare a table indicating which lot size will have to be sold by company. Also show that the economic lot size can be obtained by the Baumol Model.

III. A. Discuss the sources of information to be obtained before granting credit to a party.

OR

B. The following are the details regarding the operation of a company during a period of 12 months.

Sales	-	Rs.12,00,000
Selling price per unit	-	Rs.10
Variable cost per unit	-	Rs.7
Total cost per unit	-	Rs.9
Credit period allowed to customers	-	one month

(Turn Over)

The company is considering a more liberal extension of credit by increasing the average collection period from one month to two months. The relaxation is expected to increase the sales by 25%. You are required to advise the company regarding adopting of new credit policy, presuming that the Company's return on investment is 25%.

IV. A. Briefly explain the implications of financial management of a company of "Just in Time" (JIT) inventory control system.

OR

B. A company purchases 2000 units of a particular item per year at a unit cost of Rs.20/-. The ordering cost is Rs.50/- per order and the inventory carrying cost is 25%. Determine the Economic Ordering Quantity and the minimum total cost including purchase cost. If a 3% discount is offered by the supplier for purchase in lots of 1000 or more, should the company accept the offer?

V. A. Explain briefly the popular money market instruments in Indian money market.

OR

B. Discuss the role of banking system in India for financing the working capital requirements.

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