

MANAGEMENT PROGRAMME

Term-End Examination

December, 2014

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 calculator is *allowed*.

1. Discuss the Walker's approach and Trade off approach to working capital investment.
2. Explain what is meant by Cash Reserve Requirement and Statutory Liquidity Ratio. What is the effect of a change in these ratios on the availability of bank finance to business organisations ? Explain with examples.
3. Why do firms hold cash ? Discuss the determinants of cashflows of an organisation.
4. Explain the reasons for holding inventory by the firms. How is the Economic Order Quantity calculated ? Explain.
5. M/S NOIDA Steels Ltd. is examining the possibility of relaxing its credit policy. It sells at present 20,000 units at a price of Rs. 100 per unit. The variable cost per unit is Rs. 88 and the average cost per unit is Rs. 92 at the current sales volume. All the sales are on credit basis and the average collection period is 36 days.

The relaxed credit policy is expected to increase sales by 10% and the average age of receivables to 60 days. If the company is expecting a return of 15%, advise the company whether to adopt the proposed credit policy or not. Show your calculations.

6. Explain the loan system of granting credit by the banks. Discuss the different types of loans available under this system.
 7. Distinguish between the following :
 - (a) With Recourse and Without Recourse factoring.
 - (b) Legal Mortgage and Equitable Mortgage.
 - (c) Commercial Paper and Commercial Bill of Exchange.
 - (d) Syndication of Loans and Refinancing of Loans.
 8. What is Exchange Risk Exposure management ? Discuss the different internal techniques of exchange risk exposure management.
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