

**MANAGEMENT PROGRAMME****Term-End Examination****December, 2011****MS-41 : WORKING CAPITAL MANAGEMENT***Time : 3 hours**Maximum Marks : 100**(Weightage 70%)*


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

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1. The cost sheet ABC Ltd. provides the following data.

|                                    | Cost per unit |
|------------------------------------|---------------|
| Raw material                       | Rs. 50        |
| Direct Labor                       | 20            |
| Overheads                          |               |
| (including depreciation of Rs. 10) | 40            |
| Total cost                         | 110           |
| Profits                            | 20            |
| Selling price                      | 130           |

Average raw material in stock is for one month. Average material in work-in-progress is for half month. Credit allowed by suppliers; one month; credit allowed to debtors : one month  
Average time lag in payment of wages : 10 days ;  
average time lag in payment of overheads 30 days.

25% of the sales are on cash basis. Cash balance expected to be Rs. 1,00,000. Finished goods lie in the warehouse for one month.

You are required to prepare a statement of the working capital needed to finance a level of the activity of 54,000 units of output. Production is carried on evenly throughout the year and wages and overheads accrue similarly. State your assumptions, if any, clearly.

2. Explain with examples the ratios which can be used for assessing :
  - (a) Efficiency of working capital
  - (b) Structure of working capital
  - (c) Liquidity of working capital elements
  
3.
  - (a) With help of illustrations explain risk return trade off in working capital management.
  - (b) Explain the various approaches a company may follow to arrive at appropriate level of investment in current assets.
  
4. Management of inventory must meet two-opposing objectives. Discuss them. How is balance brought between the two objectives, Illustrate with examples.
  
5. Explain the following sources of working capital finance :
  - (a) Inter-corporate loans
  - (b) Company deposits

6. Explain the following cash management models :
- (a) Baumol model
  - (b) Miller and Orr model.
7. (a) What are credit standards that are used in credit policy decision ?
- (b) A company has an average collection period of 60 days with sale of 2 lakh units @ Rs. 30 with variable cost of Rs. 20 and average cost per unit Rs. 25. The company is not offering any cash discount and all sales are on credit. It is considering a proposal given by its consultant to allow a 2 percent discount for payments within 10 days. It will increase sales by 2500 units and average collection period will be reduced by 15 days. Incidentally working capital needs will increase by Rs. 1 lakh. If the company makes half of the sales at cash discount and desires a return of 20 percent on investment, should the proposal of consultant be accepted ?
8. Explain the features of different forms of bank credit prevailing in India. Distinguish between pledge and hypothecation.
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