

**MANAGEMENT PROGRAMME**

**Term-End Examination**

**June, 2010**

**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 concepts of Working Capital. Discuss the various factors that affect the requirement of Working Capital of a business entity.
2. Why do firms hold cash and marketable securities ? Discuss the internal factors that affect the cash flows of firms.
3. Discuss the guidelines issued by the Reserve Bank of India regarding the issuance of commercial paper by companies in India. Also explain the procedure for issuing commercial paper.
4. Discuss the various methods of creating charge over the assets of the borrower in favour of the lender bank. Distinguish between Legal Mortgage and Equitable Mortgage.

5. Discuss the salient features, merits and demerits of :
- (a) Cash credit system
  - (b) Loan syndication
6. (a) What do you understand by Prudential Norms for exposure limits ?
- (b) Explain the Turnover Method of assessing working capital needs.
7. Write short notes on *any four* of the following :
- (a) Foreign financial markets
  - (b) Consortium lending
  - (c) Baumol model
  - (d) Derivative Usance Promissory Notes
  - (e) Letter of Credit
  - (f) Euromarkets as a source of financing
8. Zen Sports, a manufacturer of atheletic equipment, is currently selling Rs. 50,00,000 annually to dealers on 30-day credit terms. Management believes that sales could be substantially increased if dealers carried more inventory; however dealers are unable to finance their inventory. As a result, the management is considering changing credit policy. The average collection period is now 30 days. Variable cost is 70% and fixed cost is Rs. 5,00,000. Required (pre-tax) rate of return on investment is 20%. The following information is available :

<i>Credit Policy</i>	<i>Average Collection period</i>	<i>Annual Sales</i>
A	45 days	Rs. 56,00,000
B	60 days	Rs. 60,00,000
C	75 days	Rs. 65,00,000
D	90 days	Rs. 72,00,000

- (a) Determine which policy Zen should adopt ?
- (b) Discuss the implicit assumptions made by the incremental profit/incremental investment approach to decision making.