(b) "There are two dangerous situations that management should usually avoid in controlling inventories." Evaluate the danger points and explain. (CO5)

(c) A company purchases a component of a product at the rate of ₹ 50 per unit. The annual consumption of that component is 25,000 units. If the ordering cost is ₹ 230/per order and carrying cost is 20% of inventory value, what would be EOQ ? (CO5)

 230

H Roll No. ....

BBA–504-F1

B. B. A. (FIFTH SEMESTER) END SEMESTER EXAMINATION, Jan., 2023

WORKING CAPITAL MANAGEMENT

Time :Three Hours

Maximum Marks : 100

Note : (i) All questions are compulsory.

(ii) Answer any *two* sub-questions among (a), (b) and (c) in each main question.

(iii) Total marks in each main question are **twenty**.

(iv) Each sub-question carries 10 marks.

1. (a) Discuss the meaning and importance of working capital management. (CO1)

P. T. O.

(b) What are the different approaches to financing of working capital requirements ? Explain. (CO1)

(c) Describe the working capital operating cycle. (CO1)

2. (a) Determine the objectives and advantages of Inventory management. Also discuss the various techniques of inventory management. (CO2)

(b) Explore the advantages of Cash Planning. What techniques are used to accelerate firms' collections ? (CO2)

(c) Examine factoring. What services are provided by a factor ? (CO2)

3. (a) Explain the role of credit terms and credit standards in the credit policy of a firm ? (CO3)

(b) The present annual sales of infoway company are ₹ 30 lakhs. The company classifies its customers into three

categories viz. 1, 2 and 3. At present, it provides unlimited credit to category-1 Limited credit to customers in category-2 and no credit to Category-3 customers. Now, the company is considering the adoption of more liberal credit policy, in which the customers in category-2 would be provided unlimited credit facility and customers in 3rd category would be provided limited credit facility. Such relaxation would increase the sales by ₹ 9 Lakhs on which bad debts losses would be 5%. The variable cost to sales ratio is 70%. The average collection period is 50 days, cost of capital is 15%, and tax rate is 40%. Determine the change in net profits and suggest whether the proposed change is desirable ? (CO3)

(c) Identify the various sources of long-term financing of working capital. (CO3)

4. (a) Determine reorder level, minimum level, maximum level and average stock level from the following data given : (CO4)

Normal usage	:	100 units per week
Lead time	:	4 to 6 weeks
Minimum usage	:	50 units per week
Maximum usage	:	150 units per week
Re order quantity	:	600 units

(b) Is the credit policy that maximizes expected operating profit an optimum credit policy ? Explain. (CO4)

(c) Illustrate with example the modus operandi of preparing a cash budget.(CO4)

5. (a) From the following information, you are required to estimate the Net working capital : (CO5)

Unit (₹)	Cost per
Raw Materials	300
Direct labour	200
Overhead	300
Total	800

Estimated data for the forthcoming period is given as under :

Raw materials in Stock	Average 6 weeks
W. I. P. (assume 50% completion stage with full material consumption)	2 weeks
Finished goods in stock	4 weeks
Credit allowed by suppliers	4 weeks
Credit allowed to debtors	6 weeks
Cash at bank expected to be	₹ 75,000
Selling price	₹ 900 per unit
Output	62,000 units

Assume that production is sustained at an even pace during 52 weeks of the year. All sales are on credit basis.