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- (b) What factors other than those referred to in (a) should Tunequip consider in its evaluation of the lockbox system ?
- (c) Do your calculations support the establishment of a lockbox system for Tunequip's western customers ? Explain your answer. (CMA, adapted)

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**MASTER OF BUSINESS
ADMINISTRATION
(THIRD SEMESTER)
END SEMESTER**

EXAMINATION, Jan., 2023

WORKING CAPITAL MANAGEMENT

Time : Three Hours

Maximum Marks : 100

- Note :** (i) This question paper contains two sections. A and B.
- (ii) Both sections are compulsory.
- (iii) Answer any *two* sub-questions among (a), (b) and (c) in each main question of Section A. Each question carries 10 marks.
- (iv) Section B consist of case study which is compulsory. Section B carries 20 marks.

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Section—A

1. (a) What do you mean by working capital management ? Discuss its importance in finance function. (CO1)
- (b) What is operating cycle of working capital ? Draw up an operating cycle for an industry. (CO1)
- (c) What are the various sources of working capital financing ? Discuss any *two* short term sources. (CO1)
2. (a) Define the term "Cash" and determine the motives of holding cash. (CO2)
- (b) Explain Cash Management with the help of Baumol's Model of Cash Management. (CO3)
- (c) Explain Miller Orr Model with proper Graphical Representation and solve the following : (CO3)

A company purchases its raw materials in lot of 2500 units. Average rate of usage is 500 units per week, maximum rate of usage is 600 units per week, procurement time is 4 weeks and the safety stock is to be 200 units. Find out reordering level, minimum, maximum and average inventories:

3. (a) Explain meaning of working capital and how is it different from fixed capital ? (CO3)
- (b) Examine working capital financing approach for any FMGC organization with suitable examples. (CO2)
- (c) The following information has been submitted by a borrower : (CO4)
- (i) Expected level of annual production 240,000 units

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- (ii) Raw Material to remain in 2 months stock on an average
- (iii) Processing Period 1 month
- (iv) Finished goods remain in 3 months stock on an average
- (v) Credit allowed to the 3 months customers from the date of despatch
- (vi) Expected ratio of cost to selling price
 - Raw Material : 60%
 - Direct Wages : 10%
 - Overheads : 20%
- (vii) Selling Price per unit : ₹ 20
- (viii) Expected Margin on Sale 10%

You are required to estimate the working capital requirements of the borrower.

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- 4. (a) "EOQ is the order quantity to maintain a trade-off between ordering cost and carrying cost." Justify with suitable examples. (CO4)
- (b) A company operates 360 days in a year and consumes daily 50 units of a raw material. A fixed cost of ₹ 73 per order is incurred for placing order. The inventory carrying cost per item amounts to ₹ 0.02 per day. Estimate EOQ. (CO4)
- (c) What are the objectives of a credit policy? Determine the optimum credit policy. (CO2)

5. Case Study : (20 Marks) (CO5)

Lockbox System. Tunequip, Inc., is a wholesale distributor of specialized audio equipment, tapes, and records. Annual sales are projected at \$ 27 million for the 19X1 fiscal year, and the average accounts receivable balance is estimated \$2.5 million. The average

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invoice size is \$1,000. Customers pay their accounts by check, which are mailed to corporate headquarters in Florida.

The finance manager of Tunequip is examining the firm's cash-handling techniques to find ways to reduce borrowing requirements and financing costs. One alternative under consideration United States. Those customers are expected to account for \$10.8 million of Tunequip's total projected sales in 19X1. Tunequip could acquire the use of the funds a day earlier if the western customers mailed their checks to a post office box in Utah. The Utah National Bank would process the payments mailed to the post office box; they would deposit the checks in Thnequip's account in Utah National, wire transfer the money to the Florida National Batik (Tunequip's primary bank), and send the payment information by mail Utah National

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Bank's charge for operating the lockbox system would be a flat fee of \$80 per month plus \$0.10 for each paid invoice handled; in addition the Utah bank would require Tunequip to maintain a \$5,000 minimum cash balance with the bank.

There would be no change in Tunequip's relationship with Florida National Bank. The finance manager estimates that Tunequip would be able to borrow funds from Florida National Bank during 19X1 at an interest rate of 9 percent.

- (a) If Thnequip, Inc, established the lockbox system for its western customers, calculate (1) the annual cost of operating the lockbox system, and (2) the dollar amount of the change in the level of accounts receivable and the reduction in borrowing which will result from this system.

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