

University Elective
Financial Management
Odd Semester, A.Y. 2021-22

Numerical – Working Capital Policy

1. The selected financial information extracted from the financial statements of ABC Ltd. for the F.Y. 2019-20 are as follows:

Particulars	Amount (Rs.)
Sales	8000000
Cost of goods sold	2400000
Inventory as on April 1, 2019	168000
Accounts receivable as on April 1, 2019	600000
Accounts payable as on April 1, 2019	480000
Inventory as on March 31, 2020	600000
Accounts receivable as on March 31, 2020	500000
Accounts payable as on March 31, 2020	240000

The company wants to understand its working capital status for the F.Y. 2019-20. On behalf of company's CFO, you are required to calculate the operating cycle and cash cycle of company and describe its working capital position. Assume 360 days in a year.

2. The following annual figures relate to PQR Ltd.:

Sales (at two months credit)	Rs. 40,00,000
materials consumed (suppliers extend one month credit)	Rs. 9,00,000
wages paid (monthly in arrear)	Rs. 5,20,000
manufacturing expenses outstanding at the end of year (Cash expenses are paid two month in arrear)	Rs. 65,000
total administrative expenses, paid as incurred	Rs. 1,60,000
sales promotion expenses, paid quarterly in advance	Rs. 2,50,000

The company sells its products at a gross profit of 22 percent counting depreciation as part of cost of production. It keeps two months stock each of raw materials and finished goods, and a cash balance of Rs. 1, 20,000.

Assuming a 15 percent safety margin, calculate the working capital requirements of the company on cash cost basis. Ignore work-in-process.

Practice Questions

3. The selected financial information extracted from the financial statements of XYZ Ltd. for the F.Y. 2019-20 are as follows:

Particulars	Amount (Rs.)
Sales	3000000
Cost of goods sold	2000000
Inventory as on April 1, 2019	80000
Accounts receivable as on April 1, 2019	100000
Accounts payable as on April 1, 2019	120000
Inventory as on March 31, 2020	130000
Accounts receivable as on March 31, 2020	160000
Accounts payable as on March 31, 2020	50000

The company wants to understand its working capital status for the F.Y. 2019-20. On behalf of company's CFO, you are required to calculate the operating cycle and cash cycle of company and describe its working capital position. Assume 360 days in a year.

4. The following annual figures relate to MNO Ltd.:

Sales (at two months credit)	Rs. 75,00,000
materials consumed (suppliers extend two months credit)	Rs. 40,00,000
wages paid (monthly in arrear)	Rs. 6,00,000
manufacturing expenses outstanding at the end of year (Cash expenses are paid one month in arrear)	Rs. 20,000
total administrative expenses, paid as incurred	Rs. 3,50,000
sales promotion expenses, paid quarterly in advance	Rs. 3,00,000

The company sells its products at a gross profit of 25 percent counting depreciation as part of cost of production. It keeps two months stock each of raw materials and finished goods, and a cash balance of Rs. 1, 25,000.

Assuming a 20 percent safety margin, calculate the working capital requirements of the company on cash cost basis. Ignore work-in-process.