

Paper Code : DMDS-241

Roll No :

Examination : DECEMBER 2020
2nd Year
Management of Working Capital

Time : 1 Hours]

[Max. Marks : 60

Instructions :-

- Attempt All Questions. All questions carry equal marks.
- Fill the 'Bubble' available in OMR Sheet to mark your Answer.
- Only one option is correct out of all available option.
- There is 1 mark for correct answer.
- There is No Negative marking for incorrect answer.

1. Sources through which funds come into the business of the firm are:

- (A) Funds from operation
- (B) Issue of shares and debentures
- (C) Both (a) and (b)**
- (D) None of these

2. Commercial paper is a source of raising :

- (A) Long term finance
- (B) Retained earnings
- (C) Short term finance** ✓
- (D) None of the above

3. Working capital is also known as :

- (A) Revolving capital
- (B) Circulating capital
- (C) Short term capital
- (D) All of these**

4. Variable working capital is required to meet :

- (A) Seasonal demands
- (B) Special exigencies
- (C) Temporary needs
- (D) All of these**

5. Which of the following is not a technique of estimating working capital requirements :

- (A) Cash forecasting method
- (B) Repression Analysis Method**
- (C) Operating cycle Method
- (D) Percentage of sales Method

6. The excess of current assets over current liabilities is known as :

- (A) Net current assets
- (B) Net working capital
- (C) Working capital**
- (D) All of these

7. Which of the following is not a motive for holding cash :

- (A) Transaction Motive
- (B) Speculative motive

(C) Saving motive

(D) Precautionary motive

8. Cash Management deals with :

(A) Cash Inflows and outflows

(B) Cash flows withing the firm

(C) Cash balances held by the firm at a point of time

(D) All of these

9. Which of the following is not a method of cash forecasting :

(A) Receipt and disbursement method

(B) Percentage of sales method

(C) Adjusted net income method

(D) All of these

10. The financing of long term assets should be made from:

(A) Short term funds

(B) Long term funds

(C) Debt funds

(D) Equity funds

11. To financial analysts, "net working capital" means the same thing as _____.

(A) Total assets

(B) Fixed assets

(C) Current assets

(D) Current assets minus current liabilities.

12. The addition of all current assets investment is known as...

(A) Net Working Capital

(B) Gross Working capital

(C) Temporary Working Capital

(D) All of these

13. When total current assets exceeds total current liabilities it refers to.

(A) Gross Working Capital

(B) Temporary Working Capital

(C) Both a and b

(D) Net Working Capital

14. . Which of the following would not be financed from working capital?

(A) Cash float.

(B) Accounts receivable.

(C) Credit sales.

(D) A new personal computer for the office.

15. Which of the following working capital strategies is the most aggressive?

(A) Making greater use of short term finance and maximizing net short term asset.

(B) Making greater use of long term finance and minimizing net short term asset.

(C) Making greater use of short term finance and minimizing net short term asset.

(D) Making greater use of long term finance and maximizing net short term asset.

16. Current ratio of a concern is 1,its net working capital will be

- (A) Positive
 - (B) Negative
 - (C) Nil
 - (D) None of the above
17. Current ratio is 4:1. Net Working Capital is Rs.30,000. Find the amount of current Assets.
- (A) Rs.10,000
 - (B) Rs.40,000
 - (C) Rs.24,000
 - (D) Rs.6,000
18. Current ratio is 2:5. Current liability is Rs.30,000. The Net working capital is
- (A) Rs.18,000
 - (B) Rs.45,000
 - (C) Rs.(-) 45,000
 - (D) Rs.(-) 18,000
19. Quick assets do not include
- (A) Govt. bond
 - (B) Book debts
 - (C) Advance for supply of raw materials
 - (D) Inventories.
20. The ideal quick ratio is
- (A) a) 2:1
 - (B) b) 1:1
 - (C) c) 5:1
 - (D) d) None of the above
21. In finance, "working capital" means the same thing as
- (A) total assets.
 - (B) fixed assets.
 - (C) current assets.
 - (D) current assets minus current liabilities.
22. Which of the following would be consistent with a more aggressive approach to financing working capital?
- (A) Financing short-term needs with short-term funds.
 - (B) Financing permanent inventory buildup with long-term debt.
 - (C) Financing seasonal needs with short-term funds.
 - (D) Financing some long-term needs with short-term funds.
23. Which of the following illustrates the use of a hedging (or matching) approach to financing?
- (A) Short-term assets financed with long-term liabilities.
 - (B) Permanent working capital financed with long-term liabilities.
 - (C) Short-term assets financed with equity.
 - (D) All assets financed with a 50 percent equity, 50 percent long-term debt mixture.
24. In deciding the appropriate level of current assets for the firm, management is confronted with
- (A) trade-off between profitability and risk.
 - (B) trade-off between liquidity and marketability.
 - (C) trade-off between equity and debt.
 - (D) trade-off between short-term versus long-term borrowing.

25. Permanent working capital

- (A) varies with seasonal needs.
- (B) includes fixed assets.
- (C) is the amount of current assets required to meet a firm's long-term minimum needs.
- (D) includes accounts payable.

26. Net working capital refers to

- (A) total assets minus fixed assets.
- (B) current assets minus current liabilities.
- (C) current assets minus inventories.
- (D) current assets.

27. Commercial paper is essentially

- (A) another term for a junk bond.
- (B) a short-term unsecured corporate IOU.
- (C) an intermediate-term corporate bond.
- (D) a certificate that may be exchanged for a share of common stock at a specified future date.

28. The most basic requirement for a firm's marketable securities.

- (A) Safety
- (B) Yield
- (C) Marketability
- (D) None

29. An increase in the firm's receivable turnover ratio means that:

- (A) it is collecting credit sales more quickly than before.
- (B) cash sales have decreased.
- (C) it has initiated more liberal credit terms.
- (D) inventories have increased.

30. Receiving a required inventory item at the exact time needed.

- (A) ABC
- (B) JIT
- (C) FOB
- (D) PERT

31. EOQ is the order quantity that over our planning horizon.

- (A) a.minimizes total ordering costs
- (B) b.minimizes total carrying costs
- (C) c.minimizes total inventory costs
- (D) d.the required safety stock

32. A low inventory turnover means :

- (A) Investment tied up in stocks
- (B) Obsolete goods on hand
- (C) Adverse impact on liquidity
- (D) all of these

33. If the inventory turnover ratio has decreased from past , it means that:

- (A) Inventory is growing
- (B) Sales are dropping
- (C) Inventory is growing or sales are dropping
- (D) None of the above

34. The factors influencing finished goods inventory are :
- (A) Accuracy of sales forecast
 - (B) Production batch quantity exceeding sales requirement
 - (C) Available storage space
 - (D) all of these
35. The stock turnover ratio indicates the
- (A) Slow moving stocks
 - (B) Sales movement
 - (C) Debtors balance
 - (D) None of the above
36. In ABC analysis, "C" class items require
- (A) Tight control
 - (B) Moderate control
 - (C) Loose control
 - (D) High safety stocks
37. To financial analysts, "net working capital" means the same thing as _____.
- (A) Total assets
 - (B) Fixed assets
 - (C) Current assets
 - (D) Current assets minus current liabilities.
38. The addition of all current assets investment is known as....
- (A) Net Working Capital
 - (B) Gross Working capital
 - (C) Temporary Working Capital
 - (D) All of these
39. When total current assets exceeds total current liability it refers to...
- (A) Gross Working Capital
 - (B) Temporary Working Capital
 - (C) Both a and b
 - (D) Net Working Capital
40. Which is not the long term source of working capital?
- (A) Issue of shares
 - (B) Retained earnings
 - (C) Long term debts
 - (D) Provision for taxation
41. Which is the most popular technique of working capital forecast ?
- (A) Cash forecasting method
 - (B) Adjusted profit and loss method
 - (C) Current assets and current liabilities method
 - (D) Projected Balance sheet method
42. Which technique of working capital forecast , the banks prefer:
- (A) Current assets and current liabilities method
 - (B) Operating cycle method
 - (C) Cash forecasting method
 - (D) None of the above

43. Which is not the device or technique of cash management:

- (A) Cash Budget
- (B) Cash Flow statement
- (C) Funds flow statement
- (D) None of the above

44. Cash budget is prepared because it :

- (A) is legally compulsory
- (B) helps in preparing Balance sheet
- (C) Helps in cash Management
- (D) It is accounting requirement

45. If customers are allowed one month credit, credit sales of January will be included in cash budget in the month of :

- (A) January
- (B) February
- (C) March
- (D) April

46. Cash budget is based on :

- (A) Past performance
- (B) Future estimates
- (C) Arbitrary
- (D) none of the above

47. The term receivables implies :

- (A) Trade Debtors only
- (B) Trade debtors and B/R
- (C) Trade debtors , B/R and prepaid expenses
- (D) Trade expenses

48. At E.O.Q. level

- (A) Total costs are maximum
- (B) Total costs are minimum
- (C) Total costs are equal to carrying costs
- (D) Nothing as above

49. The optimum credit policy is determined by the trade off between:

- (A) Liquidity & profitability
- (B) Liquidity & Solvency
- (C) Liquidity & Stability
- (D) Profitability & Solvency

50. For the calculation of reorder level which usage of inventory is included in the calculation of :

- (A) Minimum usage
- (B) Maximum usage
- (C) Average usage
- (D) None of the above

51. In ABC analysis, the classification of items is made on the basis of :

- (A) Consumption value of materials
- (B) Investment value of materials
- (C) Quantity of material consumed

(D) All of these

52. For the calculation of maximum inventory level which usage of inventory is included:

- (A) Minimum usage
- (B) Maximum usage
- (C) Normal usage
- (D) None of the above

53. The other name of minimum level is :

- (A) Market stock
- (B) Average stock
- (C) Safety stock
- (D) Factory stock

54. For the calculation of minimum inventory level which usage of inventory level is included:

- (A) Maximum usage
- (B) Minimum Usage
- (C) Normal usage
- (D) None of the above

55. Which of the following is not a principle of working capital management policy:

- (A) Principle of risk variation
- (B) Principle of equity position
- (C) Principle of maturity of payment
- (D) Principle of optimal capital

56. Which of the following is not a method of slowing cash outflows

- (A) Lock box system
- (B) Centralisation of payments
- (C) Making use of float
- (D) Reducing frequency of payment

57. The minimum levels of various current assets required by the firm to ensure the continuity of operations is known as :

- (A) Net working capital
- (B) Net current assets
- (C) Core current assets
- (D) Permanent current assets

58. One of the following will not prolong the operating cycle:

- (A) Purchase of materials in excess of requirements
- (B) Lack of production planning , co-ordination and control
- (C) Holding of excess balances in cash and bank
- (D) use of outdated machinery and tech.

59. The adoption of JIT, supply chain management , vendor management will drastically reduce the level of :

- (A) Raw material stock
- (B) Work in progress stock
- (C) Finished goods stock
- (D) All of the above

60. The firm attempts to increase its level of sales without having a support of adequate working capital is a situation of :

- (A) Under capitalization
- (B) Over capitalization
- (C) Overtrading
- (D) Prolonged operating cycle