



Name : .....

Roll No. : .....

Invigilator's Signature : .....

**CS/MBA(OLD)/SEM-(3rd FT & 5th PT)/FM-302/2010-11  
2010-11**

**WORKING CAPITAL MANAGEMENT**

Time Allotted : 3 Hours

Full Marks : 70

*The figures in the margin indicate full marks.*

*Candidates are required to give their answers in their own words  
as far as practicable.*

**GROUP – A**

**( Multiple Choice Type Questions )**

1. Choose the correct alternatives for any *ten* of the following :  
 $10 \times 1 = 10$ 
  - i) MPBF stands for
    - a) Maximum Permissible Bank Finance
    - b) Minimum Permissible Bank Finance
    - c) Marginal Permissible Bank Finance
    - d) Maximum Possible Bank Finance.
  - ii) Tandon Committee report deals with
    - a) long term finance
    - b) short term finance
    - c) working capital finance
    - d) dividend decision.



iii) According to ABC analysis, 'A' stands for what kind of invention ?

- a) high in value low in quantity
- b) low in value high in quantity
- c) more or less equal in quantity and in value
- d) liquid compressed high value item.

iv) Payment float includes

- a) mail float only                      b) processing float only
- c) both (a) and (b)                      d) none of these.

v) Float measurement is a function of

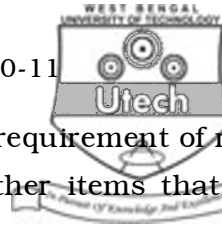
- a) time lag and amount involved
- b) only time lag
- c) only amount involved
- d) idle time.

vi) Temporary working capital is otherwise called as

- a) temporary working capital
- b) revolving working capital
- c) variable working capital
- d) both (b) and (c).



- vii) Poor liquidity and higher risk represent
- a) conservation current assets policy
  - b) aggressive current assets policy
  - c) moderate current assets policy
  - d) none of these.
- viii) Cost of receiving and inspecting the materials relates to
- a) ordering cost
  - b) carrying cost
  - c) storage space cost
  - d) inventory service.
- ix) Safety stock is also called as
- a) minimum inventory
  - b) buffer stock
  - c) reserve stock
  - d) all of these.
- x) Operating cycle method is also known as
- a) cash working capital method
  - b) percentage of sales method
  - c) estimation of components of working capital method
  - d) none of these.



- xi) The scientific way of determining the requirement of raw materials, component, spares and other items that go into meeting production needs is
- a) materials planning      b) production planning  
c) sales planning          d) both (a) and (b).
- xii) The process of systematically destining and describing all items in stock is
- a) identification              b) classification  
c) codification                d) grading.

**GROUP – B**

**( Short Answer Type Questions )**

Answer any *three* of the following.       $3 \times 5 = 15$

2. What are the components of working capital ? Describe the working capital cycle and the interdependence as to how cash is realised on completing the cycle.
3. Whether the working capital is financed by long term sources ? If so, how ?
4. What do you understand by the following ?
- a) Strict credit policy  
b) Liberal credit policy.

Explain two impacts for each of the above.

5. a) What are the different methods of cash flow ?  
b) What are the uses of methods of cash budgeting ?



6. Write short notes on any *two* of the following :

- a) Receivable policy
- b) Inventory management
- c) Economic order quantity
- d) Core working capital.

**GROUP – C**

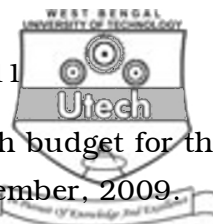
**( Long Answer Type Questions )**

Answer any *three* of the following.  $3 \times 15 = 45$

7. What are the factors that affect working capital management ? How significant is such efficient management for the success of liquidity and profitability of business enterprise and why ?
8. M/s AB Bros. want to buy a business and want to assess the working capital requirement in the first year. The following information is supplied :

	<b>Amount (000) Rs.</b>
i) Average amount locked up in raw materials	10,000
ii) Average amount locked up in financial grounds	15,000
iii) Credit sales per annum ( credit allowed to 2 months )	75,000
iv) Mfg. expenses per annum	24,000
v) Wages expenses per annum ( lag in mf of/wages-1 month )	36,000
vi) Raw materials consumed per annum ( credit allowed by suppliers )	30,000

You are required to make a working capital statement for the year ( 10% may be kept for contingences ).

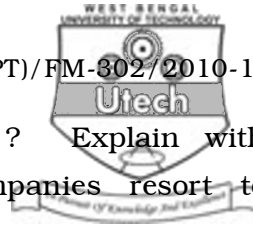


9. From the following information prepare a cash budget for the period from 1st September, 2006 to 31st December, 2009.

<b>Months</b>	<b>Credit Purchase Rs.</b>	<b>Credit Sales Rs.</b>	<b>Wages Rs.</b>	<b>Selling Expenses Rs.</b>	<b>Overheads Rs.</b>
July	85,000	1,60,000	32,000	8,000	10,000
August	92,000	1,85,000	37,000	9,500	11,500
September	1,00,000	2,10,000	42,000	10,500	13,000
October	1,20,000	2,45,000	49,000	12,500	14,500
November	90,000	1,78,000	35,500	8,900	10,500
December	98,000	1,82,000	36,000	9,000	11,000

*Additional Information :*

- Expected cash balance on 1st September — Rs. 10,500.
- Period of credit allowed to debtors — 2 months.
- Period of credit allowed by creditors — 1 month.
- Lag in payment of wages, selling expenses and overheads — 1 month.
- Selling commission @ 2% on sales is payable one month after sales.
- Expenditure on machinery worth Rs. 50,000 is payable in October.
- Expected cash sales p.m. Rs. 15,000. No commission is payable on cash sales.



10. a) What do you mean by factoring ? Explain with examples the situation when companies resort to factoring.
- b) While manufacturing the air-conditioners, the factory manager of a “Blue Star” Company plant found a lot of scrap of defective compressors in his godown. What are the possible steps he could do while reporting ?
11. Write short notes on any *three* of the following : 3 × 5
- a) Cash credit
  - b) Bill discounting
  - c) Bank overdraft facility
  - d) Public finance
  - e) Precautionary motive.
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