

**SVKM'S NMIMS University**  
**SCHOOL OF DISTANCE LEARNING**

**Programme (Semester):**

**DFM(II)/PGDFM(II)/PGDBM(III)/DBFM(II)/PGDBFM(II)/ADBFM(II)**

**Subject: Working Capital Management**

**Marks: 100**

**Duration: 3 Hours (3.00pm to 6.00 pm)**

**Date - 30.05.2009**

**NB:**

1. All the questions are compulsory.
2. Answer to each new question to be started on a fresh page.

**Q.1. Attempt any 2 out of 4 questions.**

**Max Marks: 10**

- (i). Briefly discuss impact of inflation on working management.
- (ii). Why is it important to forecast the cash flows in managing the cash flows
- (iii). Briefly explain the various forms of trade credit.
- (iv). Explain the motives of holding inventory.

**Q.2. Attempt any 3 out of 5**

**Max Marks: 15**

- (i). A company has Rs 4 per year carrying cost on each unit of inventory, an annual usage of 50,000 units and an ordering cost of Rs 100 per order. Calculate the economic order quantity. What shall be the total annual cost of EOQ.
- (ii). Discuss the components of working capital
- (iii). What shall be the effect of the following changes on the credit policy of the company:
  - (a) Increase in interest rate
  - (b) Recession
- (iv). From the below information, you are required to comment on the working capital condition of the company:  
Balance Sheet of ABC Ltd as on 31-03-2008 (Rs in Crore)

Capital and Liabilities	Rs	Assets	Rs
Current liabilities	10	Cash	10
Borrowed capital	40	Debtors	20
Equity Capital	50	Inventory	30
		Fixed Assets	40
	100		100

(v) Discuss risk–return tradeoff with the help of hypothetical figures.

**Q.3. Attempt any 3 out of 5**

**Max Marks: 45**

- (i). Briefly discuss the determinant of working capital.
- (ii). Discuss the different ways by which banks provide credit to business entities.
- (iii). Assume a customer, who used to pay the dues in time earlier, has suddenly defaulted. A couple of reminders sent to him fail to get any response. As a credit manager, you have two issues to decide. You have to first decide whether to continue the supply to the customer on credit basis. The second issue is how to deal with the customer to recover the dues. In the normal course, you to initiate legal process to recover the dues but this may strain your firm's relationship with the customer. You can't also be silent since the money involved is quiet high and your firm is incurring interest cost on this credit. How do you deal with this customer and decide the two issues?
- (iv). Digital Electronics Ltd. is preparing cash budget for the next quarter in order to negotiate with the bankers for additional credit. The sales department informs that March sales was Rs.220 lakhs and the expected sales for the next four months are Rs.120 lakhs, 120 lakhs, Rs.160, Rs.220 lakhs and Rs.160 lakhs respectively. The company sells 30% of sales through cash and the balance on credit basis with one month as credit period. The bad debts level is negligible. Cash outflows consist of payment to creditors, salary and wages, other operating expenses, purchase of fixed assets and taxes. The material and labour costs constitute 30% and 45% respectively of the sales. While raw materials are purchased in one-month credit, wages are paid in the same month. Other operating expenses cost Rs.50 lakhs and are paid in the same month. Other non-operating cash outflow items are Rs.150 lakhs in May (fixed assets). Rs.120 lakhs in June (fixed assets). Rs. 160 lakhs in June (corporate tax) Rs.140 lakhs in April (interest and instalment of loan) and Rs.100 lakhs in May (dividend). The cash at the beginning of the quarter was Rs.150 lakhs and the company's cash policy is to hold 5% of total cash expenses of the next month as minimum closing balance of the current month. Prepare a monthly cash flow statement for the quarter and highlight the surplus / deficit for each month.
- (V). Earesh and Co is currently adopting 30 days credit policy towards its credit customers. It is found that due to increase in competition, Earesh company will have to increase the number of credit days. It is contemplating to increase this period from 30 to 60 days. Currently average cost per unit is Rs 10. Variable cost per unit Rs 5. The volume

sold in last year Rs 10,000. The selling price was Rs 15 per unit. The sales are expected to increase from 10,000 units to 20000 units due to liberal credit policy. The required rate of return Earesh and Co is Rs 15%. You are required to help the Earesh in taking this credit decision.

**Q.4.**

**(30 Marks)**

Management of Infotech Limited seeks your assistance on assessing the working capital requirements for an activity level of 1,00,000 units of output for the year 2004. The cost details of the product are as follows:

<b>Particulars</b>	<b>Cost per Unit (Rs.)</b>
Raw materials	20
Direct labour	5
Overheads	15
Total cost	40
Profit	<u>10</u>
Selling price	<u>50</u>

The other details are:

1. In order to ensure smooth flow of production 2 months raw material inventory is to be held in the stores.
2. Finished goods remain in stores for one month.
3. Credit allowed for purchase of raw material is one month.
4. Credit allowed to customers is 2 months.
5. Cash Balance to be maintained is Rs.25,000.
6. Assuming that the product process is uninterrupted and even, compute the amount of working capital required for the given level of activity.

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