

SVKM's NMIMS UNIVERSITY
School of Distance Learning

Working Capital Management
ADBFM/DFM/ PGDFM/PGDBM

Date: 30.5.2007
Time: 3.00 pm to 6.00 pm

Marks: 100

SECTION - A

Answer any **two** questions from the given four. Each question carries 20 marks.

Q.1. A proforma cost sheet of a company provides the following particulars:

Elements of Cost

Material	40%
Direct Labour	20%
Overheads	20%

The following further particulars are available:

- It is proposed to maintain a level of activity of 2,00,000 units.
- Selling price is Rs.12/- per unit.
- Raw materials are expected to remain in stores for an average period of one month.
- Materials will be in process, on average half a month.
- Finished goods are required to be in stock for an average period of one month.
- Credit allowed to debtors is two months.
- Credit allowed by suppliers is one month.

You may assume that sales and production follow a consistent pattern.

You are required to prepare a statement of working capital requirements

Q.2. A trader whose current sales are Rs.15 lakhs per annum and average collection period is 30 days wants to pursue a more liberal credit policy to improve sales. A study made by a consultant firm reveals the following information:

Credit Policy	Increase in Collection Period	Increase in Sales
A	15 days	Rs.60,000
B	30 days	Rs.90,000
C	45 days	Rs.1,50,000
D	60 days	Rs.1,80,000
E	90 days	Rs.2,00,000

The selling price per unit is Rs.5. Average cost per unit is Rs.4 and variable cost per unit is Rs.2.75. The required rate of return on additional investment is 20%. Assume 360 days in a year and also assume that there are no had debts. Which of the above policies would you recommend for adoption?

Q.3. From the following forecast of income and expenditure, prepare a cash budget for the months January to April, 2003.

	Months	Sales (Credit) Rs.	Purchases (Credit) Rs.	Wages Rs.	Manufacturing expenses Rs.	Administrative expenses Rs.	Selling expenses Rs.
200	Nov.	30,000	15,000	3,000	1,150	1,060	500
2	Dec.	35,000	20,000	3,200	1,225	1,040	550
200	Jan.	25,000	15,000	2,500	990	1,100	600
3	Feb.	30,000	20,000	3,000	1,050	1,150	620
	March	35,000	22,500	2,400	1,100	1,220	570
	April	40,000	25,000	2,600	1,200	1,180	710

Additional information is as follows:

1. The customers are allowed a credit period of 2 months.
2. A dividend of Rs.10,000 is payable in April.
3. Capital expenditure to be incurred : Plant purchased on 15th January for Rs.5,000; a Building has been purchased on 1st march and the payments are to be made in monthly installments of Rs.2,000 each.
4. The creditors are allowing a credit of 2 months.
5. Wages are paid on the 1st of the next month.
6. Lag in payment of other expenses is one month.
7. Balance of cash in hand on 1st January, 2003 is Rs.15, 000.

Q.4. A proforma cost sheet of a manufacturing company provides the following particulars:

Elements of Cost	Amount per Unit
Raw Material	8
Direct Labour	3
Overheads (exclusive of depreciation)	<u>6</u>
	<u>17</u>

The following further particulars are available:

Selling Price	Rs.20 per unit
Level of activity	1,04,000 units of output per annum (52 weeks)
Raw material in stock	On an average 4 weeks
Processing time	On an average 2 weeks
Finished goods in store	On average 4 weeks
Credit Period:	
a) Customers	On an average 8 weeks
b) Suppliers of materials	On an average 4 weeks
Lag in Payment:	
a) Wages	On an average 1 ½ weeks
b) Overhead Expenses	On an average 2 weeks

75% of the output is sold on credit basis. Cash on hand and at bank is expected to be Rs.5,000. You are required to prepare a statement in columnar form showing the working capital requirements.

(a) in total, and

(b) as regards each constituent part of the same to finance a level of activity of 1,04,000 units of production per annum. You may assume that all wages and overheads accrue evenly and are completely introduced for half the processing time, i.e., 1 week.

SECTION - B

Answer any **three** from the given below six questions. Each question carries 20 marks.

5. What are the various factors influencing the determination of working capital?

6. Distinguish between fixed assets management and current assets management.

7. Discuss the important features of the Miller – Orr model.
8. What are the factors that influence the availability of trade credit?
9. Explain the principle of covered interest arbitrage and interest parity theory?
10. Explain various types of working capital and trace out the behavior of working capital with respect to time?
