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47 (5) WCMN 5.4

2012

WORKING CAPITAL MANAGEMENT

Paper : 5.4

Full Marks – 80

Time – Three hours

The figures in the margin indicate full marks for the questions.

1. Fill in the blanks : 4×1=4
- (a) According to aggressive approach, entire estimated requirements of working capital should be financed from _____ sources.
 - (b) Absolute Liquid Ratio = _____.
 - (c) _____ represent unsecured promissory notes issued by the firms to raise short term funds.
 - (d) _____ refers to the credit extended by the suppliers of goods in the normal course of business.

[Turn over

2. State whether the following are true or false (with reasons) : $2 \times 2 = 4$

(a) Accrued expenses can be used as a source of finance.

(b) Debt-equity ratio is a working capital ratio.

3. Assuming the current ratio is 2, state in each of the cases, whether the ratio will improve or decline or will have no change : $2 \times 1 = 2$

(a) Purchase of fixed assets

(b) Cash collected from customers.

4. Answer the following : $5 \times 2 = 10$

(a) What do you mean by current assets? Give examples.

(b) What are inter-corporate deposits?

(c) What is cash-credit?

(d) What is stock-velocity?

(e) Explain the term 'marketable securities'.

III. Answer the following (any four): 4×5=20

- (a) "Good cash management results in accelerated cash inflows." Explain how. 5
- (b) Explain the various approaches to working capital financing mix. 5
- (c) "Maintaining receivables involve costs." What are the costs involved? Discuss. 5
- (d) "Operating cycle approach is one of the best method for estimation of working capital requirements." Explain the method. 5
- (e) The following information has been provided by a company for the year ended 30. 6. 2012 :

Liabilities	Amount (in ₹)	Assets	Amount (in ₹)
Equity share capital	2,00,000	Fixed Assets	
10% Debenture	1,00,000	Less : Depreciation	3,00,000
Reserves and Surplus	70,000	Inventories	1,20,000
Long-term loans	30,000	Sundry Debtors	50,000
Sundry Creditors	80,000	Cash at bank	10,000
Total	4,80,000	Total	4,80,000

Sales for the year ended 30.06.2012 amounted to ₹10,00,000 and it is estimated that the same will amount to ₹12,00,000 for the year 2012-13.

You are required to estimate the working-capital requirements for the year 2012-13 assuming a linear relationship between sales and working capital. 5

- (f) If current liabilities are ₹80,000, current ratio is 2:1, liquid ratio is 1.5:1 and prepaid expenses are ₹2,000, then calculate the value of current assets and inventory. 5

6. Answer the following (any five) : 5×8=40

- (a) Explain the procedure of factoring. Also, explain the various types of factoring. 3+5=8

- (b) Is the pattern of financing current assets based on their behaviour? If yes, how? Also, explain how one can evaluate the credit-worthiness of a customer. 3+5=8

- (c) Explain Miller-Orr's Cash Management model. Also, write a short note on the credit policy of a firm. 5+3=8

- (d) What are the advantages of adequate amount of working capital? Explain the permanent sources of working capital finance. 3+5=8

- (e) What are the general principles of a sound-management policy in respect of working capital? Also explain any four factors affecting the composition of working capital. 4+4=8

- (f) The following information is given about Bright Star Ltd. for the year ending 31st March, 2012 : 8

(i) Stock Turnover Ratio = 6 times

(ii) Gross Profit Ratio = 20% on sales

(iii) Sales for 2011-12 = ₹3,00,000

(iv) Closing stock is ₹10,000 more than opening stock

(v) Opening creditors ₹20,000

(vi) Closing creditors ₹30,000

(vii) Trade debtors at the end ₹60,000

(viii) Net working capital ₹50,000

Calculate :

- (a) Creditors turnover ratio
- (b) Average payment period
- (c) Average collection period
- (d) Working capital turnover ratio.
- (g) A proforma cost-sheet of a company provides the following particulars : 8

<u>Elements of cost</u>	<u>Amount p.u.</u> (in ₹)
Raw material	80
Direct labour	30
Overheads	60
Total cost	<u>170</u>
Profit	30
Selling price	<u>200</u>

The following further particulars are available :

Raw materials are in stock on an average for one month. Work in process is on an average for half a month. Finished goods are in stock on an average for one month.

Credit allowed by suppliers is one month.
 Credit allowed to customers is two months.
 Lag in payment of wages is 1½ weeks. Lag
 in payment of overhead expenses is one
 month. One fourth of the output is sold
 against cash. Expected cash and bank
 balance is ₹ 25,000.

Prepare a statement showing the amount of
 working capital needed to finance a level of
 activity of 1,04,000 units of production.
 [N.B : Time period of 4 weeks is equivalent
 to a month].

- (h) A manufacturing company wishes to arrange
 overdraft facilities with bankers during the
 period April to June, 2012, when it will be
 manufacturing mostly for stock. Prepare a
 cash-budget for the above period from the
 following data, indicating the extent of the
 bank facilities, the company will require at
 the end of each month :

(i) <u>Month</u>	<u>Sales</u> (in ₹)	<u>Purchases</u> (in ₹)	<u>Wages</u> (in ₹)
February	1,80,000	1,24,800	12,000
March	1,92,000	1,44,000	14,000
April	1,08,000	2,43,000	11,000
May	1,74,000	2,46,000	10,000
June	1,26,000	2,68,000	15,000

(ii) 50% of the credit sales are realised in the month following the sales and the remaining sales in the second month following.

(iii) Creditors are paid in the month following the purchase.

(iv) Cash at bank on 1st April, 2012 is ₹ 25,000.