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- (f) Credit allowed to debtors is two months.
- (g) Credit allowed by suppliers is one month.

Assuming that sales and production follow a consistent pattern, you are required to prepare a statement of working capital requirement. (Allow 10% for contingencies)

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2013

**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 :* 1×5=5
  - (a) Current Ratio = \_\_\_\_\_ .
  - (b) Bad-debt is a cost involved in maintaining \_\_\_\_\_ .
  - (c) A fixed rate of \_\_\_\_\_ is payable on debentures.
  - (d) Trade-credit is a \_\_\_\_\_ source of working capital finance.

(e) The \_\_\_\_\_ motive relates to holding of cash for investing in profitable opportunities.

2. State whether the following statements are true or false :  $5 \times 1 = 5$

(a) Commercial banks do not provide loan for working capital.

(b) Net working capital – Current Liabilities = Current Assets.

(c) A firm should always maintain large balance of cash so as to meet the contingencies.

(d) Longer the average collection period larger are the chances of bad-debts.

(e) Sweat equity shares are given to existing equity shareholders for providing know-how to the company.

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

(a) What do you mean by the term working capital ?

(b) What is a cash-budget ?

(h) A proforma cost-sheet of Sunrise Chemical Ltd. provides the following particulars : 8

#### Elements of Cost

Material	40%
Direct Labour	20%
Overheads	20%

The following further particulars are available :

(a) It is proposed to maintain a level of activity of 3,00,000 units.

(b) Selling price is ₹ 10 per unit.

(c) Raw-materials are expected to remain in stores for an average period of one month.

(d) Materials will be in process, on average half a month and is assumed to be consisting of 100% raw-materials, wages and overheads.

(e) Finished goods are required to be in stock for an average period of one month.

**Additional information :**

- (i) It is estimated that sales will increase by 25% next year.
- (ii) Maximum amount of overdraft that can be availed will be only ₹ 4,00,000.
- (iii) There will be no increase in the liability for tax due to increase in sales.
- (iv) Period of credit allowed to customers and stock turnover will remain unchanged.
- (v) Period of credit allowed by creditors and that for bills payable will remain the same.
- (vi) There will be no increase in the amount of cash and bank balance.

You are required to compute the additional working capital required by the company for the year ending on 31st March, 2013.

- (c) What is seasonal working capital ?
- (d) What do you mean by operating cycle in terms of estimating working capital requirements ?
- (e) What is absolute liquid ratio ?

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

- (a) Explain the regression method for estimating working capital requirements.
- (b) State any four differences between shares and debentures.
- (c) Explain the factors that determine the selection of marketable securities.
- (d) Explain any two approaches to determine the working capital financing mix.
- (e) Explain any four measures to slow-down the cash outflow of a company.
- (f) Calculate debtors turnover ratio and average collection period if,

Annual credit sales .....	₹ 5,00,000
Debtors .....	₹ 3,00,000
Returns .....	₹ 40,000
Bills Receivable .....	₹ 1,00,000

5. Answer the following : (any five)  $5 \times 8 = 40$

(a) What do you mean by receivables management? How can the credit-worthiness of a customer be determined?  $3+5=8$

(b) Classify and explain working capital on the basis of time? Also, explain the factors affecting composition of working capital.  $4+4=8$

(c) Write a detailed note on the principles of working capital management policy. 8

(d) Write a short note on management of marketable securities? Explain any five avenues for investment of surplus funds.  $3+5=8$

(e) What is factoring? What are the advantages of factoring? Does it suffer from any limitations? Elaborate.  $2+3+3=8$

(f) Explain commercial paper as a source of working capital finance. Write a note on different forms of working capital finance by commercial banks.  $3+5=8$

(g) The following is the extract of the Balance Sheet of Star Shots Ltd. as on 31st March, 2012. 8

	Amount (in ₹)
<b>Fixed Assets</b>	
Land & Building	20,00,000
Plant & Machinery	12,00,000
	<u>32,00,000</u>
<b>Current Assets</b>	
Stock	20,00,000
Debtors	10,00,000
Cash in hand	3,00,000
Cash at bank	2,00,000
	<u>35,00,000</u>
<b>Current Liabilities</b>	
Creditors	9,00,000
Taxation Provision	2,50,000
Bank overdraft	3,50,000
Bills Payable	5,00,000
	<u>20,00,000</u>
Working Capital	15,00,000