

## MANAGEMENT PROGRAMME

Term-End Examination

June, 2009

## MS-41 : WORKING CAPITAL MANAGEMENT

Time : 3 hours

Maximum Marks : 100

(Weightage 70%)

**Note :** Attempt *any five* questions. All questions carry equal marks.

1. Explain the types of working capital and their behaviour over a period of time in diverse firms affected by seasonal and cyclical variations in sales. Discuss the impact of inflation on any two components of working capital.
  
2. (a) Merely increasing the level of investment in current assets does not reduce the working capital risks of a firm. Comment.  
  
(b) Explain the Hedging Approach to financing the working capital needs and distinguish it from the other two approaches.

3. Why do firms hold cash and marketable securities ?  
Discuss the internal and external factors that affect the flow of cash in a firm ?
  
4. "Analyzing the credit - worthiness of the customer is the most difficult task". In the light of this statement explain what is meant by credit analysis and how does a company assess the credit-worthiness of its customers ?
  
5. (a) Describe the eligibility conditions as well as the other terms and conditions prescribed for issuing the commercial paper.  
  
(b) What do you mean by factoring ? Discuss the mechanism of factoring of receivables.
  
6. "Liquidity and profitability are significant factors which are taken into consideration while taking working capital decisions". Comment. Also discuss some of the indicators which indicate the nexus between liquidity, profitability and working capital.

7. From the following information prepare cash budget for ABC Ltd., for six months starting January 2009.

- (a) Credit sales, variable costs and wages are budgeted as follows (the November and December 2008 figures are actual figures.)

Month	Credit Sales	Variable Cost	Wages
November	Rs. 10,000	Rs. 7,000	Rs. 1,000
December	12,000	7,500	1,100
January	14,000	8,000	1,200
February	13,000	7,700	1,000
March	10,000	7,000	1,000
April	12,000	7,500	1,100
May	13,000	7,750	1,200
June	16,000	8,750	1,300

- (b) Fixed expenses amount to Rs. 1,500 net per month.
- (c) Half year's preference dividend of Rs. 1,400 net is due on June 30.
- (d) Corporation tax amounting to Rs. 8,000 is payable in January.
- (e) Progress payment under a building contract is due as follows :
- March 31st Rs. 5,000 and May 31st Rs. 6,000.

- (f) The terms on which goods are sold are net cash in the month following delivery.
- (g) Variable costs are payable in the month following that in which they are incurred and 50% are subject to 2½% discount and the balance are net.
- (h) It is found that 75% of debtors to whom sales are made pay within the period of credit and the remainder do not pay until the following month.
- (i) The company pays all its accounts promptly.

8. Write short notes on *any four* of the following :

- (a) Commitment charge
- (b) Cash Reserve Ratio
- (c) Credit Rating Agencies
- (d) Futures contracts
- (e) Float
- (f) Cash Credit System

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