

(Following Paper ID and Roll No. to be filled in your Answer Book)

PAPER ID : 7125

Roll No.

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MBA

(SEMESTER-III) THEORY EXAMINATION, 2012-13

MANAGEMENT OF WORKING CAPITAL

Time : 3 Hours]

[Total Marks : 100

Section – A

1. Answer **all** questions.
 - (a) Define working capital management.
 - (b) What is the concept of working capital cycle ?
 - (c) What is an optimum credit policy ?
 - (d) Define factoring.
 - (e) Define Economic order quantity. How it is computed ?
 - (f) Define safety stock. How do you compute safety stock ?
 - (g) What are the motives of holding cash ?
 - (h) What are the advantages of decentralized collection over a centralized collection ?
 - (i) What are the sources of financing current assets ?
 - (j) Define commercial paper.

Section – B

2. Answer any **three** questions.
 - (a) Explain the concept of working capital. Are gross and net concepts of working capital exclusive ? Discuss.
 - (b) What benefits and costs are associated with extension of credit ? How should they be combined to obtain an appropriate credit policy ?

- (c) A company's requirements for ten days are 6800 units. The ordering cost per order is ₹ 10 and the carrying cost per unit ₹ 0.26. The following is the discount schedule applicable to the company :

Lot Size	Discount per unit (₹)
1 – 999	0
1000 – 1499	0.010
1500 – 2499	0.015
2500 – 4999	0.030
5000 – and above	0.050

Determine the economic order quantity.

- (d) Explain and illustrate the utility of a cash budget.
 (e) Explain the importance of trade credit and accruals as sources of working capital.

Section – C

Answer **all** questions.

3. What are the advantages of matching the maturities of assets and liabilities ? What are the disadvantages ?

OR

How does the seasonal nature of a firm's sales influence its decision regarding the amount of short – term credit to use in its financial structure ?

4. What is a lock – box system ? How does it help to reduce the cash balances ?

OR

Distinguish between a deposit float and payment float. What are the advantages and dangers of 'playing the float' ?

5. What is the selective control of inventory ? Why is it needed ? Illustrate with an example and graph the ABC analysis.

OR

How is the reorder point determined ? What is lead time ? How does it affect the computation of re-order point under certainty and uncertainty ?

6. How would you monitor receivables ? Explain the pros and cons of various methods.

OR

What credit and collection procedures should be adopted in case of individual accounts ? Discuss.

7. Briefly explain the factors that determine the working capital needs of a firm.

OR

Explain the risk-return trade-off of current assets financing.
