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APR-MAY

M. B. A. (Fourth Semester) Examination, 2020

(New Course)

(Management Branch)

**MANAGEMENT of WORKING CAPITAL (New)
(Elective- I)**

Time Allowed : Three hours

Maximum Marks : 80

Minimum Pass Marks : 32

*Note : Part (a) is compulsory from each unit. Attempt
any one from part b, and part c.*

Unit-I

1. (a) Define and describe the difference between Operating Cycle and Cash Conversion Cycle for a typically manufacturing company. 6

- (b) Discuss the profitability versus risk tradeoffs associated with alternative levels of working capital investment. 10

Or

(c) Superior brands Co. wishes to analyze the joint impact of its working capital investment and policies on shareholders' return and risk. The company has ₹ 400 crore in fixed assets. Also, the firm's financial structure consists of short term and equity. Superior wished to maintain a debt to total assets ratio of 50 percent, where debt consists of both short term and long term sources. The company's tax rate is 40 percent. The following information was developed for three different policies under consideration :

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Working capital and financing policy	Investment in Current Assets (in crores)	Amount of Short Term debt (in crores)	Projected Sales (in crores)	EBIT (in crores)	Interest Rate	
					LTD (%)	STD (%)
Aggressive	G560	G400	G1180	G118	9.5	6.5
Moderate	G600	G360	G1200	G12	9	6
Conservative	G640	G240	G1220	G122	8.5	5.5

- (1) Determine the following for each of the three working capital investment and financing policies :
- (i) Expected rate of return on shareholders' equity
 - (ii) Net working capital position
 - (iii) Current ratio

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- (2) Evaluate the profitability versus risk tradeoff associated with these three policies.

Unit-II

2. (a) What are the different types of factors involved in determining the appropriate receivable policy. 6
- (b) Critically examine the use of Discriminant approach in analyzing the financial infactor for making credit-granting decision. 10

Or

- (c) What are the five traditional "C's" the financial manager might consider in evaluating the credit worthiness of a potential customer. Also examine the Heuristic Approach to receivable management. 10

Unit-III

3. (a) Discuss the motives that a company may have for holding liquid assets. Explain the costs and benefits associated with holding liquid assets. 6
- (b) Contrast the Baumol Model on time pattern cash flows assumed with Beranek Model. 10

Or

(c) A firm is using Miller Orr Model to determine when to switch from cash to marketable securities. Based on historic data it has been found out that the standard deviation of daily cash flows is ₹ 10,00,000. The interest rates on short term investments are 3% per day. The transaction cost for each investment or disinvestment is ₹ 40. The minimum cash balance required by the firm is ₹ 50,000. 10

(i) Calculate the return point and upper control limit

(ii) Assume the firm starting cash balance is ₹ 2,50,000 and it experiences following cash flows :

Day	Net cash flows
1	+2,00,000
2	+50,000
3	-1,00,000
4	- 75,000
5	-1,20,000
6	+3,00,000
7	+65,000

Using the control limit and return points, indicate the transactions that would occur in the series of cash flows. Also comment on any amount of purchases or sales of short term investments.

Unit-IV

4. (a) What are the benefits of daily cash forecasting. 6
- (b) Discuss the primary factors in the control of inventories. Contrast the role that inventory plays in a traditional EOQ approach and in a Just-In-Time approach. 10

Or

- (c) What is the significance of safety stock to the financial manager? Distinguish between inventory ordering cost and inventory carrying cost, and give examples of each. 10

Unit-V

5. (a) Differentiate between trade credit and bank credit. 6
- (b) Write short notes on : 10
- (i) Stretching of accounts payable
- (ii) Terms of purchase

Or

- (c) Define the following : 10
- (i) Deferred Income
 - (ii) Prime Rate
 - (iii) Discounted Loan
 - (iv) Compensatory Balance
 - (v) Commitment Fee