

PSG COLLEGE OF ARTS & SCIENCE
(AUTONOMOUS)

BCom DEGREE EXAMINATION DECEMBER 2024
(Fifth Semester)

Branch – **COMMERCE (FINANCIAL SYSTEM)**

MAJOR ELECTIVE COURSE – I : WORKING CAPITAL MANAGEMENT

Time: Three Hours

Maximum: 50 Marks

SECTION-A (5 Marks)

Answer **ALL** questions

ALL questions carry **EQUAL** marks

(5 x 1 = 5)

- 1 Which is the excess of current assets over current liabilities?
 (i) Working capital (ii) Current assets
 (iii) Current liabilities (iv) Current ratio
- 2 Which approach of financing mix is less risky?
 (i) Hedging approach (ii) Trade off
 (iii) Conservative approach (iv) Working capital
- 3 Which of the following is related to receivables management?
 (i) Cash Budget (ii) EOQ
 (iii) Ageing schedule (iv) All of the above
- 4 Which are completed products awaiting sale?
 (i) Raw Materials (ii) Work in progress
 (iii) Cash (iv) Finished goods
- 5 Which year the Dehejia was constituted?
 (i) 1958 (ii) 1968
 (iii) 1978 (iv) 1988

SECTION - B (15 Marks)

Answer **ALL** Questions

ALL Questions Carry **EQUAL** Marks

(5 x 3 = 15)

- 6 a What are the objectives of working capital management?
 OR
 b Sketch out different kinds of working capital approaches.
- 7 a Calculate the estimate of working capital requirement from the following information of a trading concern.

- i. Projected annual sales 1,00,000 units
- ii. Selling price Rs.8 per unit
- iii. Percentage net profit on sales 25%
- vi. Average credit period allowed to customers – 8 weeks
- v. Average credit period allowed to suppliers – 4 Weeks
- vi. Average stock holding in terms of sales requirement – 12 weeks.
- vii. Allow 10% for contingencies.

OR

- b The following annual figures relate to XYZ Co.

	Rs.
Sales (at two month's Credit)	36,00,000
Material consumed (Suppliers extend two months credit)	9,00,000
Wages Paid (monthly in arrear)	7,20,000
Manufacturing expenses o/s at the end of the year (cash expenses are paid one month in arrear)	80,000
Total administrative expenses , paid as above	2,40,000
Sales Promotion expenses, paid Quarterly in advance	1,20,000

The company sells its products at a gross profit of 25% counting depreciation as part of the cost of production . It keeps one month's stock each of raw materials and finished goods, and a cash balance of Rs. 1,00,000

Assuming a 20% safety margin, calculate the working capital requirements of the company on cash cost basis. Ignore WIP.

- 8 a The Classic Company offers trade credit to its customers of net 30. Credit sales average Rs 620,000 per day on which the company earns a contribution margin of 20 percent. The average accounts receivable collection period is 50 days. The appropriate after-tax discount rate for evaluating accounts receivable policy changes is 9 percent and the company's marginal tax rate is 40 percent. Outline the average balance in accounts receivable.

OR

Cont...

Cont...

- b The Dryden Company currently offers trade credit to its customers on terms of net 30. Daily credit sales average Rs 250,000 on which the company earns a contribution margin of 25 percent. The average collection period of 45 days. The company's marginal tax rate is 30 percent and its after-tax discount rate for analyzing credit policy changes is 8 percent. State the company's investment in accounts receivable.
- 9 a From the following particulars, You are required to calculate optimum cash balance.

Monthly cash requirements Rs.60,000
Fixed cost per transaction Rs. 10
Interest rate on marketable securities 5% pa.

OR

- b The following details are available in respect of a firm:
- (i) Annual requirement of inventory 40,000 Units
 - (ii) Cost per unit (other than carrying and ordering cost) Rs.16
 - (iii) Carrying costs are likely to be 15% per year
 - (iv) Cost of placing order Rs. 480 per order. Bring out the economic quantity.
- 10 a Analyse the guidelines for bank finance.
- OR
- b Describe the traditional measures of the liquidity.

SECTION -C (30 Marks)Answer any **Three** questions**ALL** questions carry **EQUAL** Marks (3 x 10 = 30)

- 11 Examine the factors affecting working capital requirement.
- 12 Discover the working capital requirement from the following information. You are given the following estimates and are instructed to add 20% as contingencies.

	Rs.
i. Amount blocked up stocks:	
Stock of finished goods	12,000
Stock of stores, materials	20,000
ii. Average credit sales:	
Inland sales – 8 weeks credit	6,00,000
Export sales – 2 weeks credit	1,60,000
iii. Lag in payments of wages and other outgoings	
wages – 2 weeks	5,00,000
stock of materials – 2 months	1,00,000
Rent, Royalties – 6 months	20,000
Clerical staff – 1 month	10,000
Miscellaneous expenses – 2 months	1,00,000
iv. Payment in advances:	
Sundry expenses (paid quarterly)	20,000

- 13 A small firm has a total sales of Rs. 100 lakhs, of which 80% is on credit. It is offering a discount-credit terms of 2/40 Net 30. Of the total, 50% of customers avail of discount and the balance pay in 120 days. The past experience indicates that bad debt losses are around 1% of credit sales. The firm spends about Rs. 1,20,000 per annum to administer its credit sales. These are avoidable as a factor is prepared to buy the firm's receivables. He will charge 2% commission. He will also pay advance against receivables to the firm at an interest rate of 18% after withholding 10% as reserve. Answer the following:
- a) What is the total credit sales?
 - b) What is the average collection period?
 - c) What is the average receivables?
 - d) What is the factoring commission payable per annum?
- 14 United Industries Ltd. projects that cash outlays of Rs. 37,50,000 will occur uniformly throughout the coming year. United plans to meet its cash requirements by periodically selling marketable securities from its portfolio. The firm's marketable securities are invested to earn 12% and the cost per transaction of converting securities to cash is Rs. 40.
- a. Use the Baumol Model to determine the optimal transaction size of marketable securities to cash.
 - b. What will be the company's average cash balance?
 - c. How many transfers per year will be required?
 - d. What will be the total annual cost of maintaining cash balances?
- 15 Survey the major findings of Dehejia committees' recommendations on working capital.

Z-Z-Z

END