Enrolment No. _____

AHMEDABAD UNIVERSITY

AMRUT MODY SCHOOL OF MANAGEMENT

UNDERGRADUATE PROGRAMMES

2023-2024 MONSOON SEMESTER

END SEMESTER EXAMINATION

FAC336 WORKING CAPITAL STRATEGY

Date: 17-02-2023 Total Marks: 40

Time: 02:00 pm – 04.00 pm No. of printed pages: 03

1. The Marketing Manager of Kalmart Ltd. is giving a proposal to the Board of Directors of the company that an increase in credit period allowed to customers from the present one month to two months will bring a 25% increase in sales volume in the next year and Bad debt losses will be 5 percent Or if they increase the credit period of 4 months, it will increase the sales volume by 35% and Bad debt losses will be 7 percent. The following operational data of the company for the current year are taken from the records of the company: Selling price Rs. 21 per unit, Variable cost Rs. 14 per unit and Total cost Rs. 18 per unit. Sales value Rs. 18, 90,000 and 2% of bad debt losses. The Board, by forwarding the above proposal and data requests you to give your expert opinion on the adoption of the which new credit policy in next year or continue with the current policy subject to a condition that the company's required rate of return on investments is 40% and fixed cost is Rs. 3,00,000 **(6 marks)**

2. Billi Ltd. Company is a growing company and sells goods worth Rs. 36000 on credit to Delta Ltd. The amount will be encashed in 60 days. During this period, Billi Ltd. runs out of working capital. Therefore, it approaches ICICI Factors to avail factoring in finance. ICICI factors agrees to buy accounts receivables at a 12% discount. Therefore, Billi Ltd. opts for a recourse factoring. Determine what will happen if Delta Ltd. defaults on its payment. Explain by calculating the amounts **(4 marks)**

3. Information for two components Iron and Steel are as follows:

   Normal usage: 380 units per week, Minimum usage: 360 units per week
   Maximum usage: 400 units per week
   Reorder Quantity: Iron= 2400 Units, Steel= 770 Units

Reorder Period: Iron= 3 to 5 Weeks, Steel= 5 to 7 Weeks
Calculate Reorder levels, maximum levels, safety stock levels, average stock levels **(5 marks)**

4. Peter Company uses 96500 litres of oil per year. The cost of ordering is ₹ 860 per order, and the cost of carrying the oil in inventory is Rs. 6 per litre per year. The firm uses oil at a constant rate every day throughout the year,
   (a) Calculate the EOQ
   (b) Calculate the total cost of the plan suggested by the EOQ.
   (c) Determine the total number of orders suggested by this plan,
   (d) Frequency of orders
   (e) Assuming that it takes 35 days to receive an order once it has been placed, determine the reorder point in terms of oils per litre by using 360-day year. **(5 marks)**

5. Khan and Jain Ltd. requires Rs.6, 75,000 in cash for meeting its transaction needs over the next 7 months. This amount is available with the company in the form of marketable securities. It can earn 15 percent annual yield on its marketable securities. The conversion of marketable securities into cash entails a fixed cost of Rs. 200 per transaction. By using the Baumol's Model a)Find the optimum cash conversion size, b) Average Cash holding, c) Number of transaction in 7 months, d) Number of days per transaction for 7 months And e) Per day of usage **(5 marks)**

6. Factoring allows a business to obtain immediate capital or money based on the future income attributed to a particular amount due on an account receivable or a business invoice. What are the different types of factoring services available in the financial market, explain?**(4 marks)**

7. Camilla Corporation has an annual sales of Rs. 5,00,000. The average inventory level is Rs. 1,25,000 and the receivables are 1,50,000. Company has payables of Rs. 80,000 against an annual purchases bill of Rs. 3,00,000. Determine Operating and cash conversion cycle in number of days. Assuming 365 days in a year. **(5 marks)**

8. Hi-tech Ltd. plans to sell 30,000 units next year. The expected cost of goods sold is as follows:

Information	**Rs. (Per Unit)**
Raw Material	100
Manufacturing expenses	30
Selling, administration and financial expenses	20
Selling price	200

The duration at various stages of the operating cycle is expected to be as follows:

Raw Material stage	2 months
Work-in-progress stage	1 month
Finished stage	1/2 month
Debtors stage	1 month

Assuming the monthly sales level of 2,500 units, estimate the gross working capital requirement if the desired cash balance is 5% of the gross working capital requirement, and work-in-progress is 25% complete with respect to manufacturing expenses. **(6 marks)**