

Dr. Babasaheb Ambedkar Open University
Term End Examination January -2026

Course	: Diploma Course	Date	: 03/03/2026
Subject Code	: DFM-04	Time	: 11:30am to 01:45pm
Subject Name	: Working Capital Management	Duration	: 02.15 Hours
		Max. Marks	: 70

Q-1 Bhavin Ltd. is Selling a product at Rs. 16 per unit. The data regarding its sales, cost etc. are given below. **14**

Sales	20,000 units
Variable cost per unit	Rs. 10
Average cost per unit	Rs. 13
Total fixed cost	Rs. 10,000
Average collection period	40 days

The company is contemplating relaxation of its credit policy which is expected to result in 20 percent increase in unit sales and the average collection period would increase to 60 days. There would be no change in bad debts. There would be negligible increase in collection expenses.

If the required return on investments of the company is 19 percent, should the company relax its credit policy?

OR

Describe the methods of preparing Cash Budget.

Q-2 Padmavati Ltd. operates a normal working day of eight hours. There are 25 working days in a month. Production costs per month are as follows: **14**

Particulars	Rs.	Rs.
Raw materials	----	200000
Direct labour	-----	100000
Overheads :		
Fixed	75,000	
Semi- variable	37,500	
Variable	37,500	1,50,000
Net profit		50,000
Sales		5,00,000

Raw materials are in stock on average for	2 month
Materials are in process on average for	1½ month
Finished goods are in stock on average	1 month
Credit allowed by creditors is	2 month
Credit allowed to Debtors	1 month
Lag in payment of Wages	1/8 month
Lag in payment of Overheads	2 month

You are asked by the Management to submit statement of working capital required.

OR

Calculate the Economic Order Quantity from the following data of Moon Ltd.

1. Annual Consumption of a material 12500 units
2. Price per unit Rs. 5
3. Insurance cost per unit Rs. 0.70
4. Interest cost per unit Rs. 0.20
5. Storing cost per unit Rs. 0.10
6. Cost of placing an order Rs. 10

Q-3 Write a note of Factors Determining Working Capital Requirement.

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OR

From the following information. prepare a monthly cash budget for Ravish Ltd. for 3 months ending 31st March:

- (i) Revenue is expected to be Rs. 90,000, Rs. 92,000 and Rs. 90,000 in the three months,
- (ii) Purchase for December, January, February and March are likely to be Rs. 80,000, Rs. 60,000, Rs. 65,000 and Rs. 70,000 respectively, 40 percent is paid in next month.
- (iii) Rent per month is Rs. 4,000 and personal withdrawal Rs. 6,000.
- (iv) Rs. 35,000 is expected to be outflows towards purchase of a vehicle in the month of March.
- (v) Cash expenses are Rs. 14,000 for each month,
- (vi) Present cash balance is Rs. 15,000.

Q-4 Saurin Ltd. is considering to make its collection policy stricter. The information is as follows: **14**

The company is selling 15000 units at present at Rs.45 per unit. Its variable cost per unit is Rs.30 and average cost per unit is Rs.35 the average collection period is 60 days, collection expenditure is Rs.8500 and bad debts expenses are 6 %.

If the collection policy is made strict, the additional collection charges of Rs.13000 will be incurred and bad debts expenses will be reduced to only 3 % the average collection period will decline to 36 days. Due to rigorous collection procedure, the sales are expected to decline by 300 units.

If the required rate of return of the firm is 19 %, what advice would you give to the firm?

OR

Explain of the Advantages of Cash budget.

Q-5 Write Short Notes (Any two)

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1. Operating Cycle Concept
2. Credit Rating Customers
3. Economic Order Quantity
4. Limitation of cash budget
5. Conservative working capital strategy
