

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

Course : Diploma Course Subject Code : DFM-04 Subject Name : Working Capital Management	Date : 09/07/2026 Time : 11:30am to 01:45pm Duration : 02.15 Hours Max. Marks : 70
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Q-1 Explain the concept of ‘over capitalization’ and ‘under capitalization. **14**

OR

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

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 bed 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?

Q-2 Describe the methods of preparing Cash Budget. **14**

OR

Explain the ABC analysis for inventory management.

Q-3 Explain the concept of Factoring of Book Debts. **14**

OR

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:

Particulars	Rs.	Rs.
Raw materials	----	2,00,000
Direct labour	-----	1,00,000
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.

Q-4 The annual inventory requirement of a Opera Ltd. is 30,000 units. The ordering cost is Rs. 150 per order. Its carrying cost per unit is Rs. 1.20 per unit. **14**
 Suppose the ordering quantity is as follow: (1) 30,000 units (2) 15,000 units (3) 6,000 units (4) 3,000 units (5) 1,500 units (6) 750 units.

Determine the following on the basis of above information:

- (1) Ordering cost
- (2) Carrying cost
- (3) Average inventory
- (4) Economic Ordering Quantity.

OR

Idea Ltd. manufactures a product and the following particulars are collected for the year ended March, 2001:

Particulars	Details
Monthly demand (units)	1,000
Cost of placing an order (Rs.)	100
Annual carrying cost (Rs. per unit)	15
Normal usage (units per week)	50
Minimum usage (units per week)	25
Maximum usage (units per week)	75
Re-order period (weeks)	4–6

You are required to calculate:

1. Re-order Quantity
2. Re-order level
3. Minimum level
4. Maximum level
5. Average stock level

Q-5 (A) Short notes (Any three)

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1. Hedging Approach
2. Cost-Benefit Analysis of Credit Sales
3. Credit Rating Customers
4. Economic Order Quantity
5. Trial and Error method

(B) Choose the correct option for the questions given below and write the answer.

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1. Working Capital refers to:
(A) Fixed Assets – Current Assets (B) Current Assets – Current Liabilities
(C) Total Assets – Total Liabilities (D) Capital – Reserves
2. Which of the following is a Current Asset?
(A) Machinery (B) Building (C) Debtors (D) Land
3. Which ratio measures short-term solvency?
(A) Debt Equity Ratio (B) Current Ratio
(C) Return on Investment (D) Proprietary Ratio
4. Cash Management is concerned with:
(A) Long-term investment (B) Proper utilization of cash
(C) Purchase of machinery (D) Sale of fixed assets
5. Receivables Management deals with:
(A) Collection from debtors (B) Purchase of assets
(C) Issue of shares (D) Bank loans
