

# HOMEWORK - WORKING CAPITAL

**Q1.** Following information is forecasted by R Limited for the year ending 31<sup>st</sup> March, 2021:

	As at 31/3/2021	As at 31/3,2021
	(Rs. in lakh)	(Rs. in lakh)
Raw Material	65	45
Work-in-progress	51	35
Finished goods	70	60
Receivables	135	112
Payables	71	68
Annual purchases of raw material (all credit)	400	
Annual cost of production	450	
Annual cost of goods sold	525	
Annual operating cost	325	
Annual sales (all credit)	585	

You may take one year as equal to 365 days. You are required to CALCULATE:

- (i) Net operating cycle period.
- (ii) Number of operating cycles in the year.
- (iii) Amount of working capital requirement.

**Q2.** The following data relating to an auto component manufacturing company is available for the year 2020-2021:

Raw material held in storage	20 days
Receivables' collection period	30 days
Conversion process period (raw material – 100%, other costs – 50% complete)	10 days
Finished goods storage period	45 days
Credit period from suppliers	60 days
Advance payment to suppliers	5 days
Total cash operating expenses per annum	₹ 800 lakhs

75% of the total cash operating expenses are for raw material. 360 days are assumed in a year.

**You are required to CALCULATE:**

- (i) Each item of current assets and current liabilities,
- (ii) The working capital requirement, if the company wants to maintain a cash balance of ₹ 10 lakhs at all times.

**Q3.** The following figures and ratios are related to a company:

(i)	Sales for the year (all credit)	Rs. 90,00,000
(ii)	Gross Profit ratio	35 percent
(iii)	Fixed assets turnover (based on cost of goods sold)	1.5
(iv)	Stock turnover (based on cost of goods sold)	6
(v)	Liquid ratio	1.5:1
(vi)	Current ratio	2.5:1
(vii)	Receivables (Debtors) collection period	1 month
(viii)	Reserves and surplus to Share capital	1:1.5
(ix)	Capital gearing ratio	0.7875
(x)	Fixed assets to net worth	1.3 : 1

You are required to PREPARE:

- Balance Sheet of the company on the basis of above details.
- The statement showing working capital requirement, if the company wants to make a provision for contingencies @15 percent of net working capital.

**Q4.** From the information and the assumption that the cash balance in hand on 1st January 2021 is Rs. 72,500, PREPARE a cash budget.

Assume that 50 per cent of total sales are cash sales. Assets are to be acquired in the months of February and April. Therefore, provisions should be made for the payment of Rs. 8,000 and Rs. 25,000 for the same. An application has been made to the bank for the grant of a loan of Rs. 30,000 and it is hoped that the loan amount will be received in the month of May.

It is anticipated that a dividend of Rs. 35,000 will be paid in June. Debtors are allowed one month's credit. Creditors for materials purchased and overheads grant one month's credit. Sales commission at 3 percent on sales is paid to the salesman each month.

Month	Sales (Rs.)	Materials Purchases (Rs.)	Salaries & Wages (Rs.)	Production Overheads (Rs.)	Office and Selling Overheads (Rs.)
January	72,000	25,000	10,000	6,000	5,500
February	97,000	31,000	12,100	6,300	6,700
March	86,000	25,500	10,600	6,000	7,500
April	88,600	30,600	25,000	6,500	8,900
May	1,02,500	37,000	22,000	8,000	11,000
June	1,08,700	38,800	23,000	8,200	11,500