ASSIGNMENT

Course Code	**:**	**MMPF-001**
Course Title	**:**	**Working Capital Management**
Assignment Code	**:**	**MMPF-001/TMA/JULY/2026**
Coverage	**:**	**All Blocks**

Note: Attempt all the questions and submit this assignment to the Coordinator of your study centre. Last date of submission for July 2026 Semester is 31st October 2026 and for January 2027 Semester is 30th April 2027.

Q1. Explain different approaches to the determination of working capital. As a new entrepreneur, which of the three broad approaches would you prefer and why?

Q2. Alpha Ltd. has a annual sales of Rs. 50 lakhs and is currently extending 30 days credit to the dealers. It is felt that sales can pick up if dealers are willing to carry increased stocks, but dealers have difficulty in financing their inventory. The company is therefore considering shifts in credit policy. You are required to determine which policy the company should adopt from the following information that is available:

Credit Policy	Average Collection Period	Annual Sales Rs. lakhs
P	45 days	56
Q	60 days	60
R	75 days	62
S	90 days	63

The average collection period now is 30 days.
Costs: Variable cost is 80 per cent on sales.
Fixed cost is Rs. 6 lakhs per annum.
Required (pre-tax) return on investment is 20 per cent.

Also mention the assumptions that you have made while approaching your decision.

Q3. Describe the salient features of the Guidelines issued by the Securities and Exchange Board of India (SEBI) for the conversion of Debentures into Equity.

Q4. Study the case of 'Inventory Management In Maruti Suzuki India Limited (MSIL)' given in **Unit 15** of this course and answer the questions given at the end of the case.

Q1. Explain different approaches to the determination of working capital. As a new entrepreneur, which of the three broad approaches would you prefer and why?

Answer

Working capital is the amount invested in current assets such as cash, inventories and receivables after considering the current liabilities that support day-to-day operations. The difficult part is deciding how much working capital is adequate. Too little can interrupt production, purchases and payments, while too much locks funds in low-return current assets. Three broad approaches are commonly used for determining the requirement: the industry norm approach, the economic modelling approach and the strategic choice approach.

1. Industry Norm Approach

Under this approach, a firm looks at the normal practice followed by other firms in the same industry and uses it as a benchmark. If most firms in an industry normally keep a certain level of raw material, allow a similar credit period to customers, or maintain a particular ratio of current assets to sales, a new firm may use those practices while fixing its own working capital level. Banks and financial institutions have also used industry-based norms while assessing the reasonable level of inventories and receivables.

The main attraction of this approach is simplicity. A new business does not have its own long operating history, so industry experience gives a practical starting point. It can also prevent the entrepreneur from adopting credit terms that are completely out of line with the market. For example, if customers in an industry normally receive 60 days credit, a firm insisting on immediate cash payment may lose business unless it has some special advantage.

At the same time, industry averages have limitations. Classification itself may be difficult for a multi-product firm. An average may also hide large differences in size, technology, bargaining power, seasonality, supplier location and product mix. A highly efficient firm may require less inventory than the industry average, while a fast-growing firm may temporarily need more. Blindly following norms can therefore encourage imitation rather than improvement.