

Working capital

Government, Capitalism



WORKING CAPITAL

Q1. Which of the following is the primary most objective of working capital?

(MCQ) The difference between current assets & current liabilities
A balance of having liquid assets to ensure the operation is unaffected
Management of individual working capital components
Working capital analysis using ratios (2 marks)

Q2. Calculate the Current Ratio & Quick Ratio using the below information.

(MCQ) \$000 Inventory 200 Receivables 670 Payables 235 Bank loan 85
Current Ratio 0.37, Quick Ratio 0.27
Current Ratio 0.58, Quick Ratio 0.31
Current Ratio 1.76, Quick Ratio 1.54
Current Ratio 2.71, Quick Ratio 2.09 (2 marks)

Q3. Pick Co. sold 20% of its inventory on credit for 10% profit. What will be the effect on the quick ratio & current ratio after the inventory sale, if all else is equal? (MCQ)
Current Ratio (Increase), Quick Ratio (Increase)
Current Ratio (Increase), Quick Ratio (No change)
Current Ratio (No change), Quick Ratio (Increase)
Current Ratio (Increase), Quick Ratio (Decrease) (2 marks)

Q4. Inkle Co has receivables turnover of 8 times, a payables turnover of 4.5 times and an inventory turnover of 2.25 times. Calculate cash operating cycle assuming 365 days in a year? (MCQ)
46 Days
81 Days
127 Days
162 Days (2 marks)

Q5. Which of the following TWO statements are correct in relation to working capital policies for a manufacturing company and a food retailer? (MRQ)
A manufacturing company will need to invest in raw material and result in large amounts to be owed to its customers
A food retailer will have a large

inventory of large receivables balance
 A manufacturing company needs no accounts receivable policy
 A food retailer will need to consider inventory management policy (2 marks)

Q6. Mafia Co is a manufacturing company and has the following periods.

Periods Days
 Receivables collection 70
 Raw material turnover 42
 Work in progress turnover 14
 Finished goods turnover 42
 Payables payment

495334032258000
 What is the time it takes to complete a working cycle?

(FIB) Days(2 marks)

Q7. Which of the following best describes the working capital turnover?

(MCQ) It measures a company's ability to replace its working capital
 It measures the working capital support to the revenues
 It measures the liquidity position of the company
 It measures the profitability position of the company

(2 marks)

Q8. Yolo Co. has the following inventories: Raw material \$600
 Work in progress \$550
 Finished goods \$700
 Yolo Co has annual purchases of \$5, 000

with the cost of sales being \$2, 000. What are the average inventory days for Yolo Co (366 days in a year)?

(FIB) 23495-317500 Days(2 marks)

Q9. A company sells toy machine guns in the USA; it yearly sells 15, 000

guns at \$60/each. It has to receive \$56, 000 from its customers. In how

many days will the company receive all its payments? (MCQ) 10 Days 23

Days 63 Days 98 Days(2 marks)

Q10. A delay in payment to the suppliers may result which of the following?

(MRQ) Future contracts with the suppliers may be disrupted
 A discount on late

payment will be missed Goodwill in the market will be increased An increase in the price of products as a compensation (2 marks)

Q11. Which of the following is not a typical symptom of overtrading? (MCQ) A significant increase in revenue A bank overdraft reaching its limit A fall in the quick ratio and the current ratio A fall in trade payables days (2 marks)

Q12. A company has very high levels of inventory and high cash balances. This is an indication of? (MCQ) Over-trading High cash operating cycle Over-capitalization Low working capital cycle (2 marks)

Q13. Select whether the following statements are true or false. (HA) An increase in sales revenue should likely to increase the level of working capital invested TRUE FALSE A profitability decrease is an indication that the trade cycle has been increased TRUE FALSE Under-capitalization is the rapid increase in sales as compared to the invested finance TRUE FALSE (2 marks)

Q14. Match the following ratios in comparison to identify the over-trading problems. (P; D) A significant increase in sales Customers are paying late than their credit period Current liabilities are in excess of Current assets WORKING CAPITAL GROWTH % QUICK RATIO % INCREASE IN RECEIVABLES (2 marks)

Q15. Unto Co is an online sales company which has established its business in the past two years. The CFO has indicated that the company has expanded its business and gained a good market share in these two years but to be able to continue further they will need to manage its working capital effectively.

Which of the following actions might help overcome Unto Co problems?

(MRQ)The shareholders will be asked to inject finance into Unto Co
Inventory levels should be increased by Unto Co
Sales of Unto Co should be withheld for some time
Retained profits should be invested back in Unto (2 marks)

Q16. An investment policy is the amount of working capital investment needed for a particular company. Which of the following statement related to a conservative policy? (MCQ)
Company keeping a low level of inventory will lead an earlier cash operating cycle
A lengthy cash operating cycle may lead to high finance cost
Inventory levels ; receivables should be kept at an optimum level
A short cash operating cycle may lead to risky business(2 marks)

Q17. Kelp Co has kept its inventory levels at the minimum level from the start of the business. The business was acquired by a competitor and they continued its operation as per their previous owners. In the last three months, the company is unable to meet the supply demands due to a shortage of inventory. The new owner of Kelp Co is unable to recognize the working capital policy. Select the appropriate working capital policy? (MCQ)
Conservative investment policy
Aggressive financing policy
Aggressive investment policy
Conservative financing policy(2 marks)

Q18. Select the appropriate option. (HA)
The efficient management of inventory ; receivables relates to a moderate investment policy TRUE FALSE
If customers pay late to a company this will increase the cash cycle TRUE FALSE(2 marks)

Q19. A company needs finance to invest in their assets. Select the appropriate asset in relation to working capital financing policy. (P; D) Assets are bought in their respective seasons Assets continue for more than a year Assets present with the company at any given time of the year NON-CURRENT ASSETS PERMANENT CURRENT ASSETS FLUCTUATING CURRENT ASSETS(2 marks)

Q20. Which statement best reflects a conservative working capital finance policy? (MCQ) More short-term finance is used because it's risky More long-term finance is used because it improves liquidity More short-term finance is used to purchase inventory More long-term finance is used to pay-off payables(2 marks)

Q21. Select the following similarities in an Investment & financing working capital policy. (MRQ) The risk of stock out in the policy The names used in each policy The use of assets in the policy The level of inventory in the policy(2 marks)

Q22. Which of the following factors could have an influence in working capital? (MRQ) Company credit policies The future growth prospect The balance of liquidity & profitability The nature of the company Payable credit policies of suppliers(2 marks)

Q23. Which of the following is a benefit in having a decentralized treasury department in a company? (MCQ) The duplication of work The benefit of bulk discounting The low-interest rates applied by the bank The development of skills of managers (2 marks)

WORKING CAPITAL (ANSWERS)

Q1. B The difference between current assets & current liabilities (Definition) A balance of having liquid assets to ensure the operation is unaffected (Objective) Management of individual working capital components (One of the aspects of WC) Working capital analysis using ratios (One of the aspects of WC)

Q2. D Current Ratio = $[200+670] \div [235+85] = 2.71$ Quick Ratio = $[670] \div [235+85] = 2.09$

Q3. A The Quick ratio = Increase The inventory sold on credit, all else being equal receivables (current assets) will increase, so the quick ratio will increase. The Current ratio = Increase Current assets include Inventory & Receivables. The inventory sold for profit, the receivables increase will be more than the decrease in inventory, the net effect will be the increase in current assets, hence ratio increased.

Q4. C Receivable days = $(365 \div 8) = 46$ days Inventory days = $(365 \div 2.25) = 162$ days Payable days = $(365 \div 4.5) = 81$ days Cash operating cycle = $(46 + 162) - 81 = 127$ days

Q5. A A manufacturing company will need to invest in raw material and result large amounts to be owed to its customers (Correct) A food retailer will have large inventory with small receivables balance A manufacturing company needs careful consideration of accounts receivable policy A food retailer will need to consider inventory management policy (Correct) Q6. 119 days Working Capital Cycle = $(70+42+14+42) - 49 = 119$

Q7. BQ8. 91 days
Raw material days = $(600 \div 5,000) \times 366 = 44$ days
Work in progress days = $(550 \div 2,000) \times 366 = 101$ days
Finished goods days = $(700 \div 2,000) \times 366 = 128$ days
Average days = $(44 + 101 + 128) \div 3 = 91$ days

Q9. B
Sales = $15,000 \times 60 = 900,000$
Receivable days = $(56,000 \div 900,000) \times 365 = 23$ days

Q10. Future contracts with the suppliers may be disrupted (Correct)
A discount on early payment will be missed
Goodwill in the market will be decreased
An increase in the price of products as a compensation (Correct)

Q11. D
Overtrading is business trying to do too much too quickly with too little long-term capital. The payment period to accounts payable is likely to lengthen (not shorten).

Q12. C
Over-capitalization represents an excessive investment by a business in its current assets. In the case inventory & cash balance both relate to current assets of a business.

Q13. An increase in sales revenue should likely to increase the level of working capital invested TRUE
A profitability decrease is an indication that the trade cycle has been increased TRUE
Under-capitalization is the rapid increase in sales as compared to the invested finance TRUE

Q14. A significant increase in sales Working capital growth %
Customers are paying late than their credit period %
Increase in Receivables
Current liabilities are in excess of Current assets
Quick Ratio

Q15. The shareholders will be asked to inject finance into Unto Co
(Correct) Inventory levels should be managed efficiently by Unto Co Sales of Unto Co should be lowered not withheld completely for some time Retained profits should be invested back in Unto (Correct)

Q16. B In a conservative policy, the inventory levels & receivables are kept high resulting longer cash operating cycles leading to a need for finance via overdraft facilities. Overdraft results finance cost.

Q17. C The company kept its inventory levels at the minimum having a high risk of stockouts which indicates the Aggressive investment policy was used by Kelp Co.'s previous owners.

Q18. The efficient management of inventory ; receivables relates to a moderate investment policy TRUE If customers pay late to a company this will increase the cash cycle TRUE

Q19. Assets are bought in their respective seasons FLUCTUATING CURRENT ASSETS Assets continue for more than a year NON-CURRENT ASSETS Assets present with the company at any given time of the year PERMANENT CURRENT ASSETS

Q20. B The conservative policy finances most fluctuating assets with long-term finance and finances all permanent assets with long-term finance. Resulting low risk eventually improving liquidity but decreasing profitability.

Q21. The names used in each policy are same only.

Q22. All given above are the factors which can influence the working capital

Q23. D