**Working Capital-Numericals**

**Question 1**

The board of directors of Nanak Engineering Company Private Ltd. requests you to prepare a statement showing the working capital requirements for a level of activity at 1,56,000 units of production. The following information is available for your calculation:

|  |  |
| --- | --- |
|  | **Per unit** |
| Raw materials | 90 |
| Direct labour | 40 |
| Overheads  Total  Profit  Selling price | 75  200  60  265 |

i) Raw materials are in stock, on average, for 1 month.

ii) Materials are in process, (50 per cent complete) on average for 4 weeks.

iii) Finished goods are in stock on average for 1 month.

iv) Credit allowed by suppliers is 1 month.

v) Time lag in payment from debtors is 2 months.

vi) Average lag in payment of wages is 1.5 weeks.

vii) Average lag in payment of overheads is 1 month.

viii) 20 per cent of the output is sold against cash. D

Desired minimum cash in hand and in bank, Rs.60,000. It is to be assumed that production is carried on evenly throughout the year; wages and overheads accrue similarly, and a time period of 4 weeks is equivalent to a month.

Question 2.

A pro forma cost sheet of a company provides the following data:

Costs (per unit) Rs.

Raw materials 52.00

Direct Labour 19.50

Overheads 39.00

Total cost (per unit) **110.50**

Profit 19.50

Selling price **130.00**

The following is the additional information available:

Average raw material in stock: one month; average materials in process: half a month. Credit allowed by suppliers: one month; credit allowed to debtors: two months. Time lag in payment of wages: half month. Overheads: one month. One fourth of sales are on cash basis. Cash balance is expected to be Rs.1,20,000.

You are required to prepare a statement showing the working capital needed to finance a level of activity of 70,000 units of output. You may assume that production is carried on evenly throughout the year and wages and overheads accrue similarly.

Question 3

Prepare Cash Budget of Sachin Tendulkar Ltd. for the months of April, May and June, 2020

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Month | Sale | Purchases | Wages | Expenses |
| January | 1,60,000 | 90,000 | 40,000 | 10,000 |
| February | 1,60,000 | 80,000 | 36,000 | 12,000 |
| March | 1,50,000 | 84,000 | 44,000 | 12,000 |
| April | 1,80,000 | 1,00,000 | 48,000 | 14,000 |
| May | 1,70,000 | 90,000 | 40,000 | 12,000 |
| June | 1,60,000 | 70,000 | 36,000 | 10,000 |

You are informed that :

1. 50% of the purchases and sales are on cash
2. The average collection period of the company is 1 month and the credit purchases are also paid off regularly after 1 month.
3. Time lag in payment of wages is 1 month.
4. Rent of Rs.1,000 is payable every month.
5. Cash and bank balance as on 31st March,2020 was Rs.3,00,000.
6. Dividend received in May Rs.36,000.
7. Professional fees to be paid in June Rs.1,500.
8. Expenses are paid in the same month.