

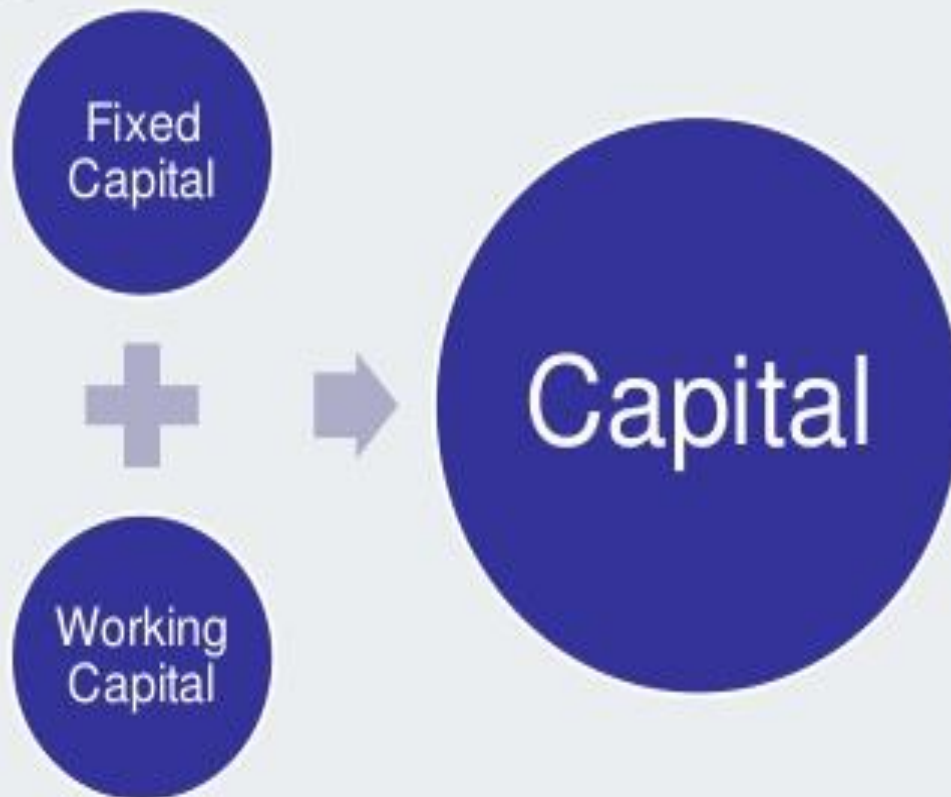
SOS POLITICAL SCIENCE AND PUBLIC ADMINISTRATION
MBA FA 202

**SUBJECT NAME: FUNDAMENTALS OF FINANCIAL
MANAGEMENT**

TOPIC NAME: WORKING CAPITAL



- **Capital** : Amount required to start business





- **Fixed Capital:** Fixed Capital required for Establishment of business.
- **Working Capital:** Working Capital required to utilize fixed assets.



Working Capital

- Working capital plays a key role in a business just as the role of **heart** in human body.
- It act as '**grease**' to run the wheels of fixed assets.
- The efficiency of a business enterprise depends largely on its ability to manage working capital.



Working Capital

- Working Capital refers to **short term funds**, to meet operating expenses.
- In simple 'Working Capital is a fund required by firm to finance **day-to-day** operations.
- Broadly, there are two concepts of Working Capital:
 - Gross Working Capital
 - Net Working Capital



Nature of Working Capital

- A. Short term need
- B. Circulating
- C. Permanent
- D. Fluctuating
- E. Liquid
- F. Less Risky



Scope of Working Capital

- A. Cover all expenditure
- B. Keep business going
- C. Generate operating profit



Concept of Working Capital

- I. **Gross Working Capital:** It is the **sum of all current assets** appear in balance sheet.

*Current Assets are those assets which can be easily **converted into cash***

- II. **Net Working Capital:** It is the **difference between current assets and current liabilities**

Current liabilities are short term liabilities



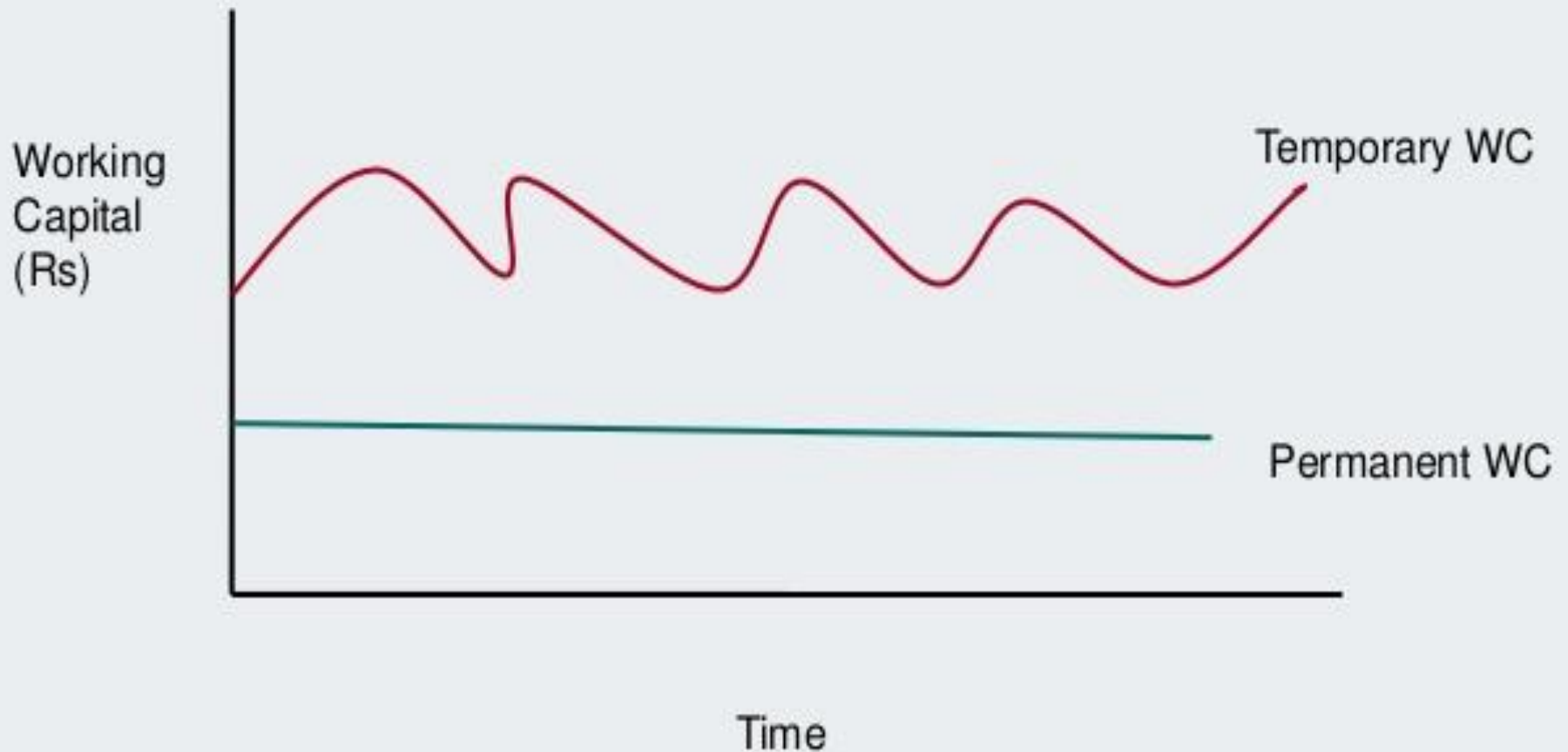
Types of Working Capital

- I. **Permanent Working Capital:** It is the **minimum** working **capital required** for producing predetermined production.

- II. **Temporary Working Capital:** It is the **additional** current assets **required** for temporary period, and it is above permanent working capital.



Types of Working Capital





Components of Working Capital

Current Assets

- Raw Material
- Work-In-Progress (WIP)
- Finished Goods
- Stock
- Inventory
- Prepaid/Advances
- Cash
- Sundry Debtors
- Short Term Deposit (Up to 1 Year)

Current Liabilities

- Short Term Creditors
- Bank Overdraft
- Short Term Borrowings
- Proposed Dividend
- Short Term Loans and Advances



Determinants of Working Capital

Nature of Business

Size of Business

Operational Efficiency

Business Cycle

Terms of Purchase & Sales

Production Cycle

Technological Changes

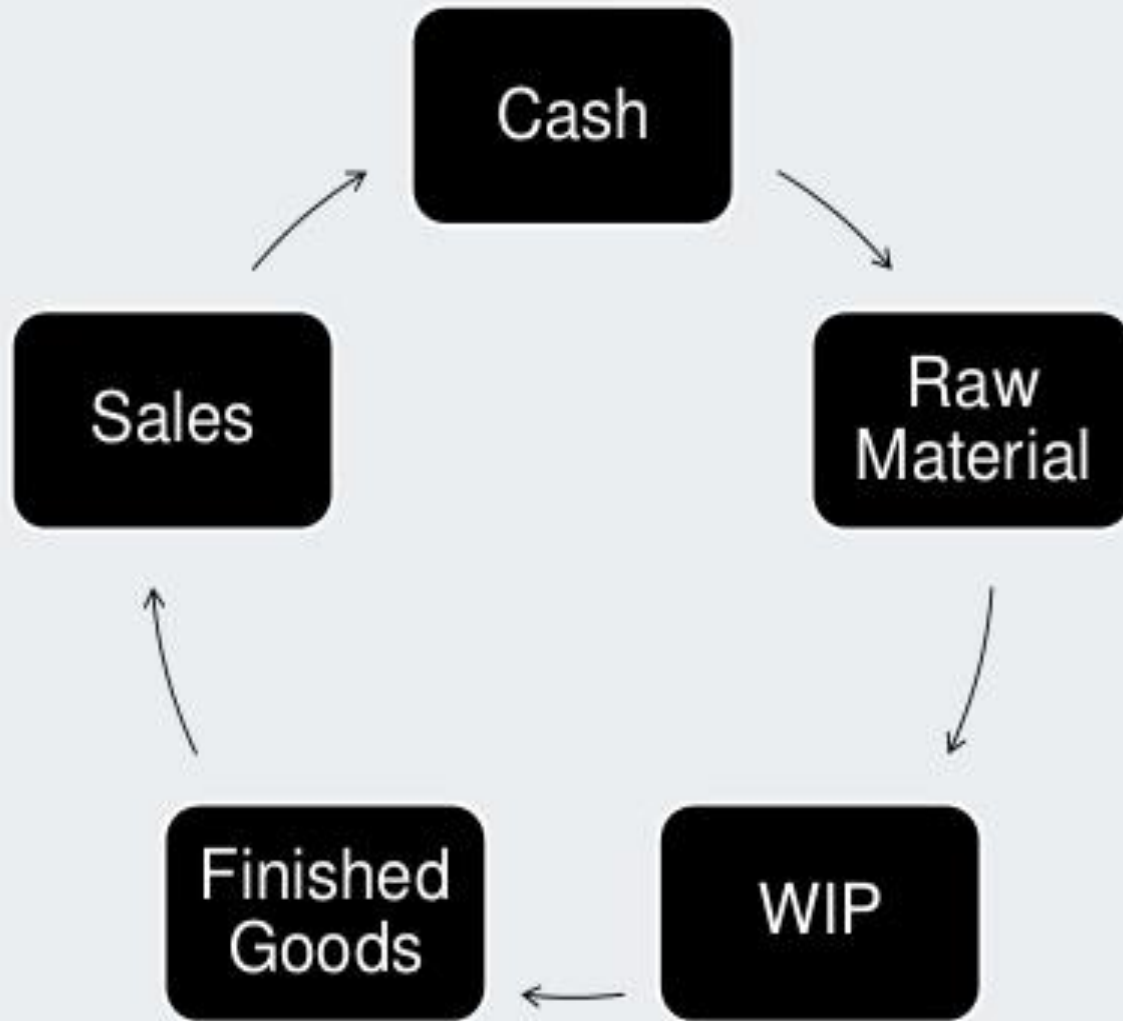


Operating Cycle

- The time that require to convert raw materials into cash.
- The length of operating cycle is depend upon several factors like –
 - Length of Manufacturing Process
 - Holding period of inventories

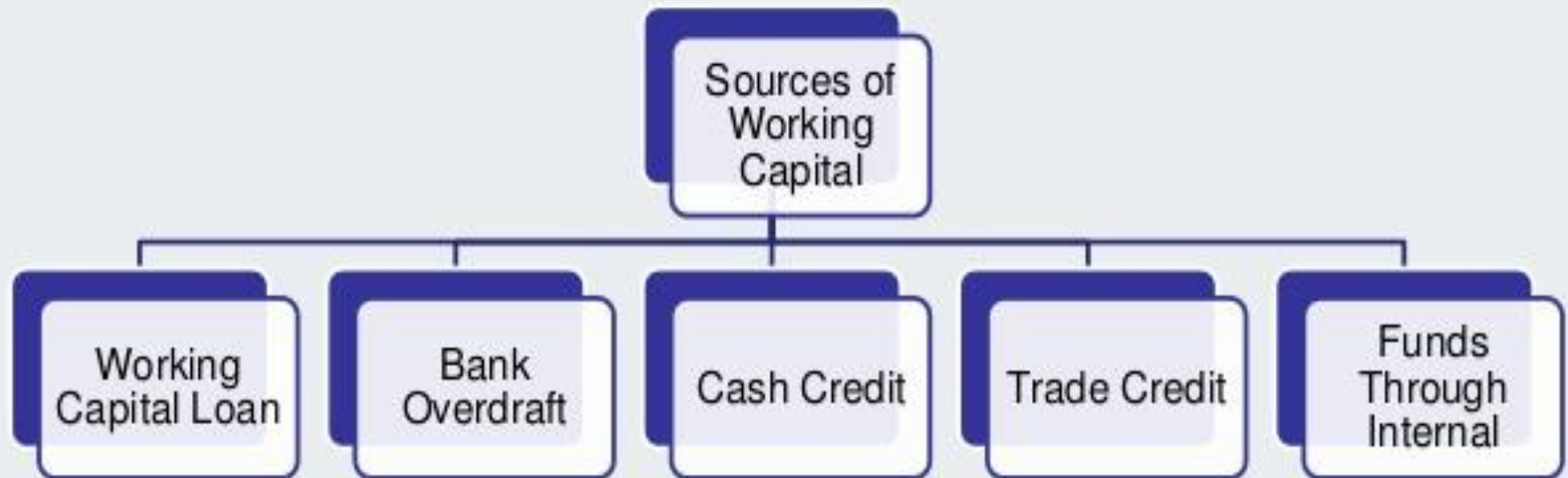


Operating Cycle





Working Capital Financing



THANK YOU