

**SOS POLITICAL SCIENCE AND  
PUBLIC ADMINISTRATION**

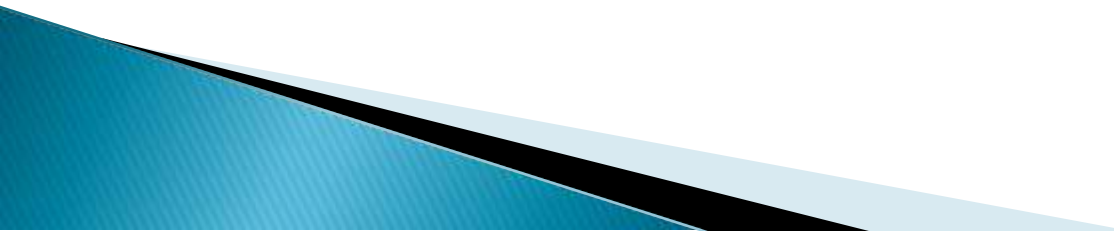
**MBA FA 403**

**SUBJECT NAME:  
WORKING CAPITAL  
MANAGEMENT**

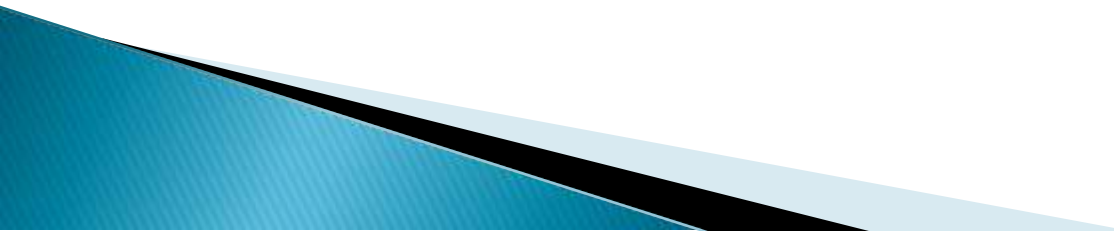
**TOPIC NAME: DETERMINATION OF WORKING  
CAPITAL**



# WORKING CAPITAL:

- ▶ The capital which is needed for the regular operation of business is called working capital.
    - 1- For the purchase of raw materials
    - 2- For the payment of wages
    - 3- Payment of rent and of other expensesWorking capital is kept in the form of cash, debtors, raw materials inventory, stock of finished goods, bills receivable etc.
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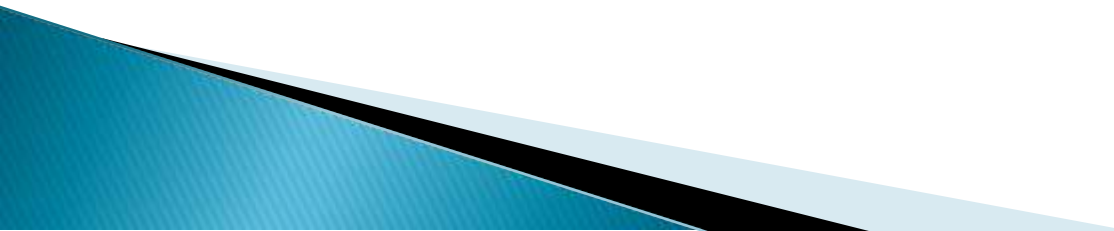
# DETERMINANTS OF WORKING CAPITAL:

- ▶ Size Of Business
  - ▶ Nature Of Business
  - ▶ Storage Period
  - ▶ Credit Period
  - ▶ Seasonal Requirement
  - ▶ Potential Growth Or Expansion Of Business
  - ▶ Changes In Price Level
  - ▶ Dividend Policy
  - ▶ Working Capital Cycle
  - ▶ Operating Efficiency
  - ▶ OTHER FACTORS
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# SIZE OF BUSINESS:

- ▶ Working capital requirement of a firm is directly influenced by the size of its business operation. Big business organizations require more working capital than the small business organization
- Employees  
Businesses Total businesses(%)
- |                 |           |       |
|-----------------|-----------|-------|
| 1-9 (Micro)     | 1,022,695 | 82.3% |
| 10-49 (Small)   | 177,950   | 14.3% |
| 50-249 (Medium) | 29,750    | 2.4%  |
| 250+ (Large)    | 6,455     | 0.5%  |

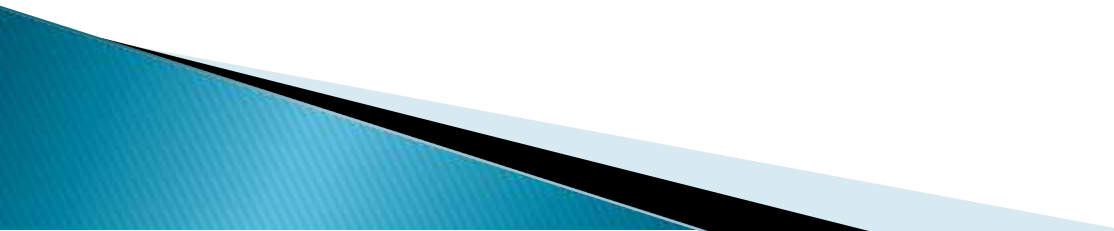
# NATURE OF BUSINESS:

- ▶ Working capital requirement depends also upon the nature of business carried by the firm. Normally, manufacturing industries and trading organizations need more working capital than in the service business organizations. A service sector does not require any amount of stock of goods. But in the manufacturing or trading firm, credit sales and advance related transactions are in large amount.
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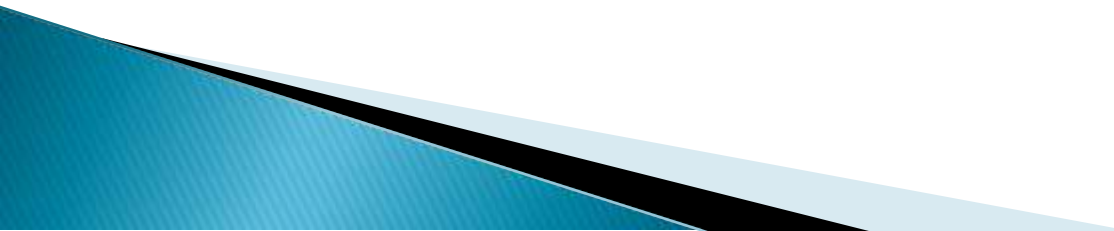
# STORAGE PERIOD:

- ▶ Time needed for keeping the stock in store is called storage period. The amount of working capital is influenced by the storage period. If storage period is high A firm should keep more quantity of goods in store and hence requires more working capital. if the storage Period is less , then more stock of goods must be held in store as work-in-progress.

# CREDIT PERIOD:

- ▶ The credit period is the number of days that a customer is allowed to wait before paying an invoice. Thus, a longer credit period equates to a larger investment in receivables. 1-Longer credit period requires more investment in debtors and hence more working capital is needed But, the firm which allows less credit period to customers needs less working capital.
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# SEASONAL REQUIREMENT:

- ▶ In seasonal business , working capital is most important requirement. Such business organizations have to buy raw material in bulk during the season to ensure an uninterrupted flow and process them during the Short period. Thus, a huge amount is blocked in the form of raw material inventories which gives rise to more working capital requirements.
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# POTENTIAL GROWTH:

- ▶ Growth potential is an organization's future ability to generate larger profits, expand its workforce and increase production. If the business is to be extended in future, more working capital is required. Which is in for two shape 1- business wealth 2- business image More amount of working capital is required to meet the expansion need of business.

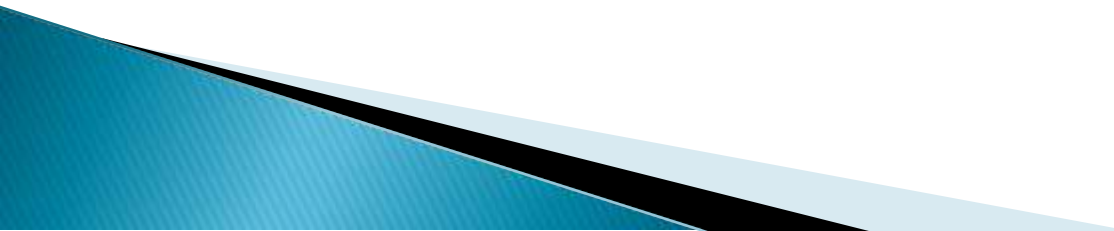
# CHANGES IN PRICE LEVEL:

▶ Change In Price Level Also Affects The Working Capital Requirements.

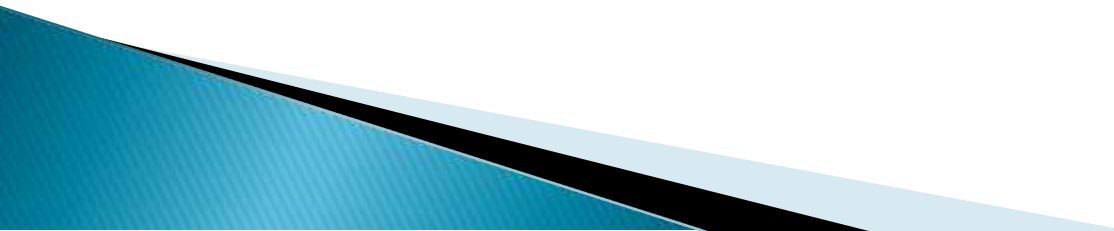
1- The Rise In Price Will Require The Firm To Maintain Large Amount Of Working Capital.

2- When Decrease In The Price Will Require The Firm, It Is Needed Decreasing The Working Capital Of Business.

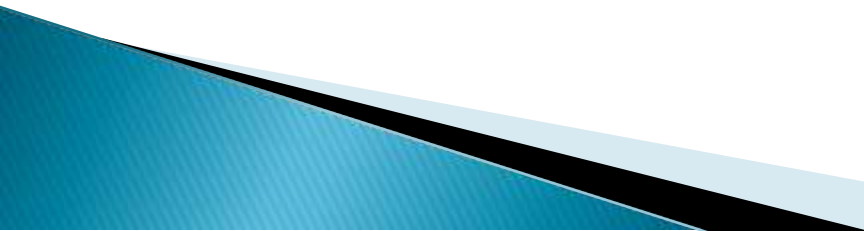
# DIVIDEND POLICY:

- ▶ Dividend policy is the set of guidelines a company uses to decide how much of its earnings it will pay out to shareholders. A desire to maintain an established dividend policy may affect working capital. The need for working capital can be met with the retained earnings. If a firm retains more profit and distributes lower amount of dividend, it needs less working capital.
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# WORKING CAPITAL CYCLE:

- ▶ The working capital cycle (WCC) is the amount of time it takes to turn the net current assets and current liabilities into cash. When the working capital cycle of a firm is long, it will require larger amount of working capital. But, if working capital cycle is short, it will need less working capital.
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# OPERATIONAL EFFICIENCY:

- ▶ Operational efficiency is the capability to deliver products or services to its customers in the most effective manner.
  - ▶ The operating efficiency of a firm also affects the firm's need of working capital.
  - ▶ The operating efficiency of the firm results in optimum utilization of assets.
  - ▶ The optimum utilization of assets in turn results in more fund release for working capital
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# OTHER FACTORS:

- ▶ Government policies
  - ▶ Depreciation policy
  - ▶ Inventory policy
  - ▶ Credit policy of RBI
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