* Principles of Working Capital Management.

→ Capital management in order to fulfill the day to day requirements of a company.

→ It is a management of Current Assets and Current Liabilities.

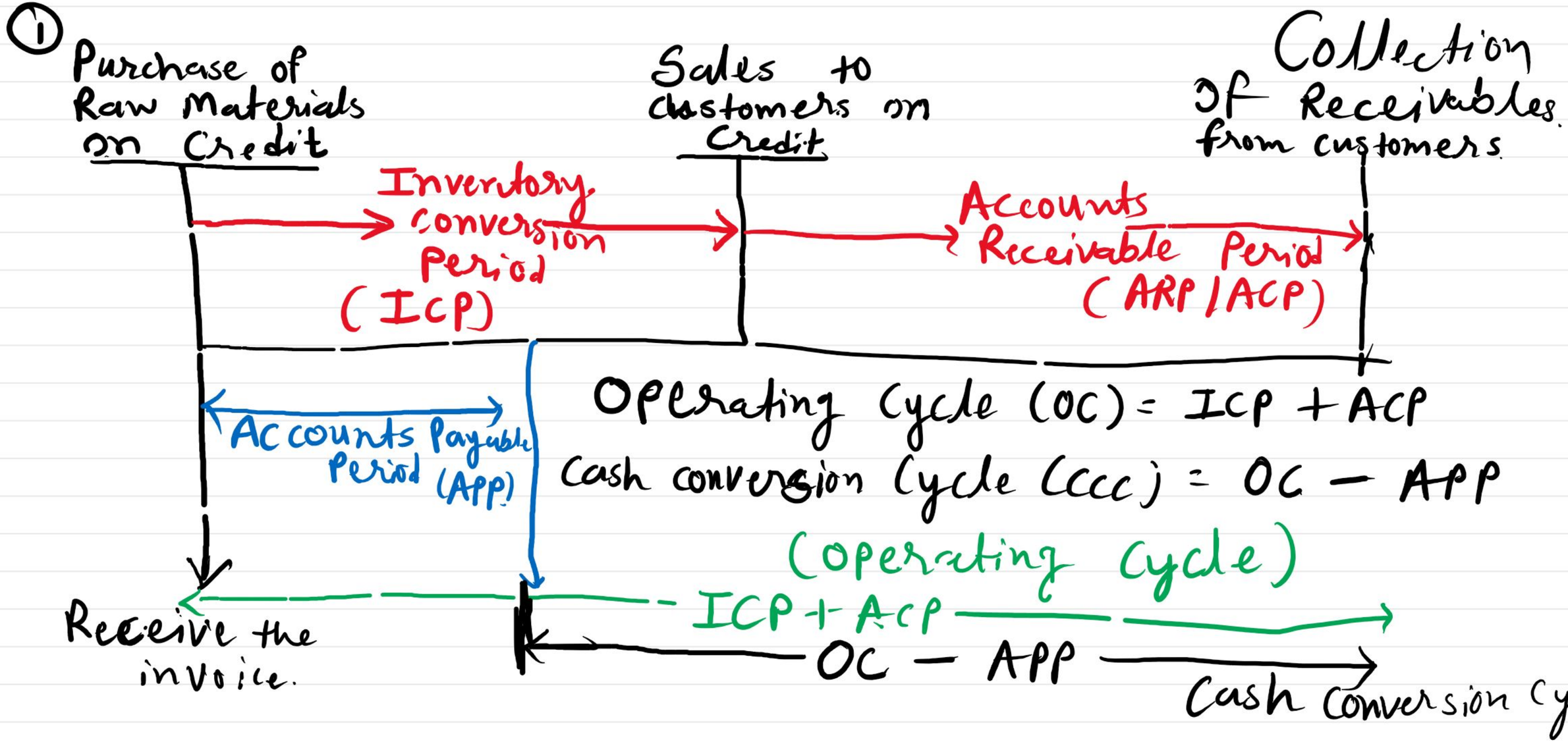
→ Gross Working Capital = Current Assets

→ Current Assets (C.A.) − Current Liabilities (C.L) = Net working cap.

→ If CA > CL → NWC will be positive.

If CA < CL → NWC will be Negative.

* Operating cycle (OC) and Cash conversion cycle (CCC)



* Inventory Conversion Period (ICP) = $\frac{\text{Avg. Inventory}}{\text{COGS}} \times 360$

Avg. Inventory = $\frac{\text{Op. Inventory} + \text{Closing Inventory}}{2}$

COGS = Cost of Goods Sold.

* Accounts Receivables Period = $\frac{\text{Avg. Debtors (Avg. Receivables)}}{\text{Credit sales}} \times 360$

Avg. Debtors = $\frac{\text{Op Debtors} + \text{Cl. Debtors}}{2}$

Credit sales = Total sales − Cash sales.

* Accounts Payable Period = $\frac{\text{Avg. Creditors (Avg. Payables)}}{\text{COGS}} \times 360$

Avg. Creditors = $\frac{\text{Op. Bal.} + \text{Cl. Bal.}}{2}$

Qwe. 1 WCP.

1. Avg. Inventory = $\frac{\text{Op. Bal.} + \text{Cl. Bal}}{2}$

$= \frac{168000 + 600000}{2}$

$= \boxed{384,000}$

$\text{Inventory conversion period} = \frac{\text{Avg. Inventory}}{\text{COGS}} \times 360$

$= \frac{3,84,000}{24,00,000} \times 360$

$= 57.6 \text{ Days}$

ICP. $\simeq$ 58 Days Approx.

2. A/c Receivables period

Avg. Receivable = $\frac{\text{Op} + \text{Cl}}{2}$

$= \frac{6,00,000 + 5,00,000}{2}$

$= \boxed{5,50,000}$

A/c Rec Period = $\frac{5,50,000}{80,00,000} \times 360$

$= 24.75 \simeq \boxed{25 \text{ days}}$

A/c Payable Period

Avg. Payables = $\frac{\text{OP} + \text{Cl}}{2}$

$= \frac{4,80,000 + 2,40,000}{2} = 3,60,000$

A/C Payable Period = $\frac{3,60,000}{24,00,000} \times 360$

$= \boxed{54 \text{ Days}}$

Operating Cycle = ICP + ARP

$= 58 + 25$

$= \boxed{83 \text{ Days}}$

Cash Conversion Cycle = OC − APP

$= 83 - 54$

$= \boxed{29 \text{ Days}}$

* Estimation of Working Capital Requirement.

Particulars	Amount.
A) Current Assets	
Raw Materials (Prod. Units × R.M/unit × Time)	✓
WIP (Units × WIP/unit × Time)	✓
Finished Goods (Units × Mfg Cost/unit × Time)	✓
Debtors (Units × Cash Cost/unit × Time)	✓
Cash Bal.	✓
Prepaid Exps.	✓
Outstanding Incomes	✓
(A) Total Current Assets	✓
B Current Liabilities	
Creditors/suppliers (Units × R.M./unit × Time)	✓
O/S Exps. (Units × Exps./unit × Time)	✓
(B) Total Current Lia.	✓
Net Working Capital (A − B)	✓
+ Safety Margin (% of NWC)	✓
Working cap. Requirement.	✓

* Calculation of Cash Cost

Sales ✓
(−) Gross Profit (✓)

Total Mfg. Cost ✓
− Materials (✓)
− Wages (✓)

Mfg. Exps. Total ✓
(−) Cash Mfg. Exps. (✓)

Depreciation ✓

Total Mfg. Cost ✓
− Dep. (✓)

Cash Mfg. Cost ✓ (Finished goods)
+ Admin Exps. ✓
+ Selling & Dist. Exps. ✓

Total Cash Cost ✓ (Debtors)