



Working capital

Working Capital refers to that part of the firm's capital, which is required for financing short-term or current assets such as cash, marketable securities, debtors and inventories.

- Revolves fast
- Cash → Current Asset → Cash..... keeps going

Working Capital is also known as revolving / circulating / short-term capital



Working capital Management

Working capital typically means the firm's holding of current assets – such as cash, raw materials, receivables, inventory and marketable securities

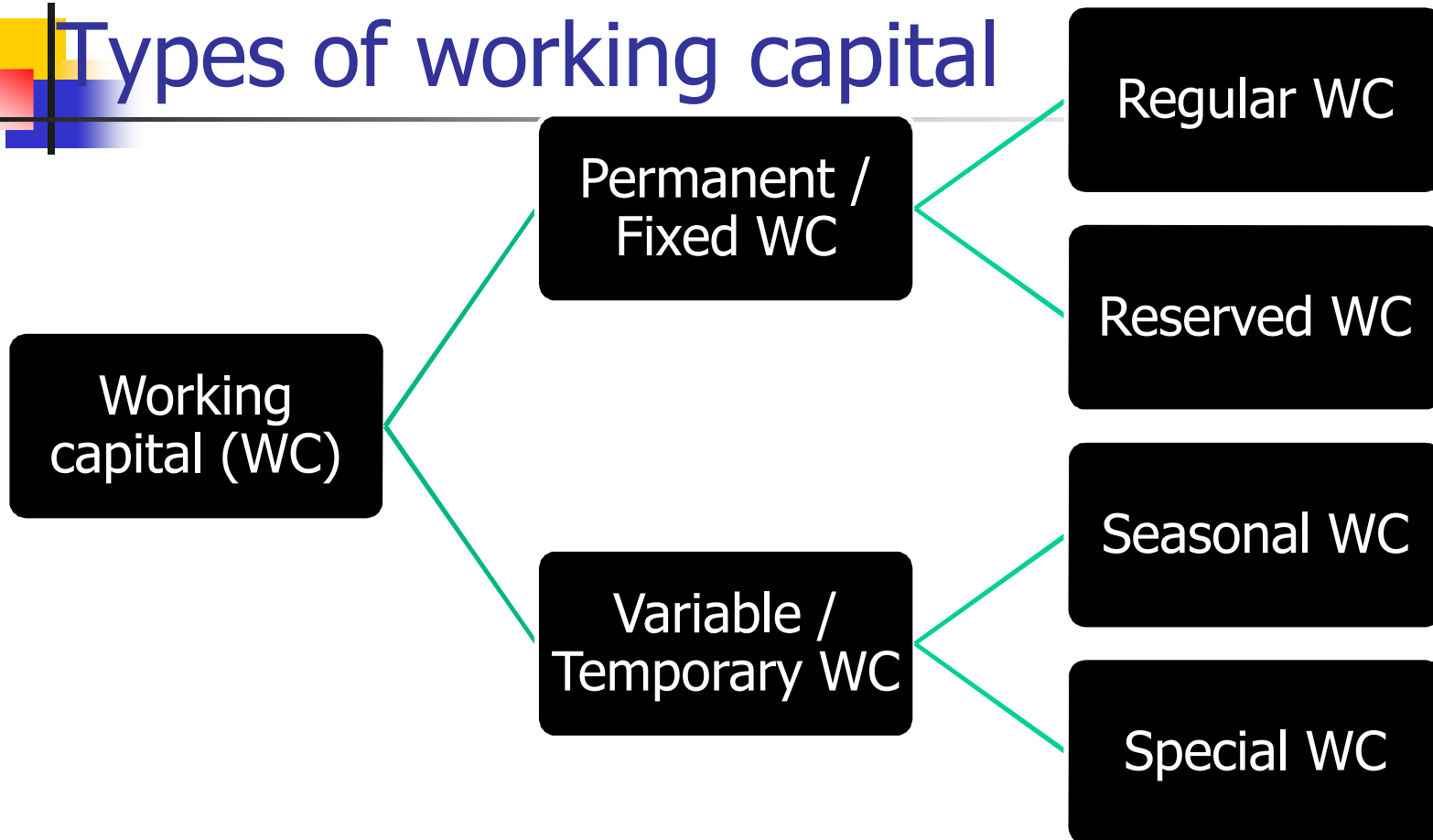
These items are also referred to as circulating capital

- Less --> Production stops
- More --> Money locked / money sleeps / no asset generation

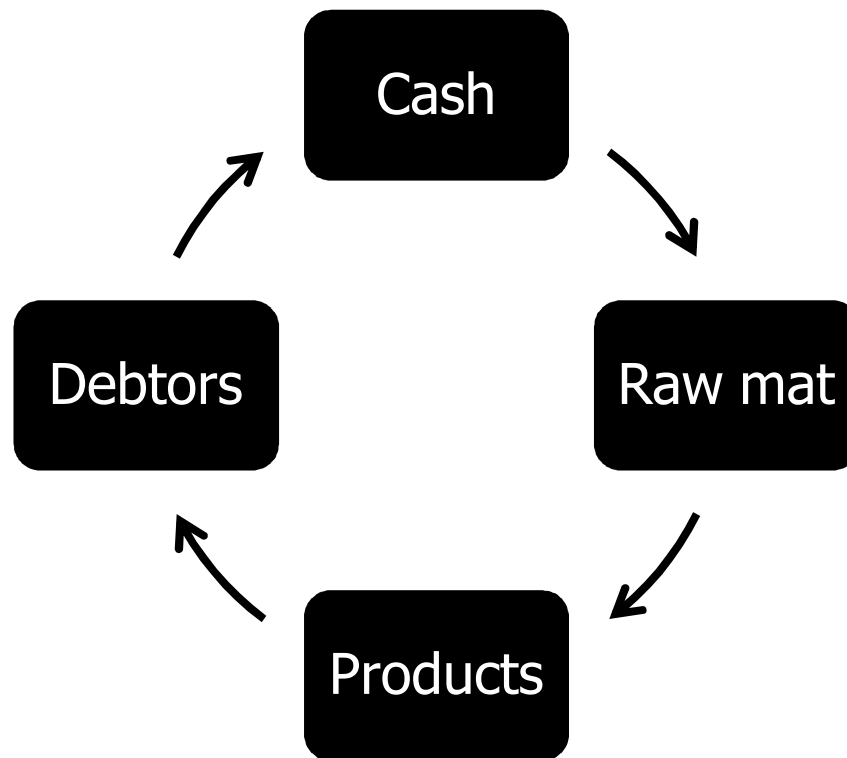
Hence optimal requirement

- Permanent working capital: used for regular production / operation
- Variable or Temporary working capital: used for seasonal demands

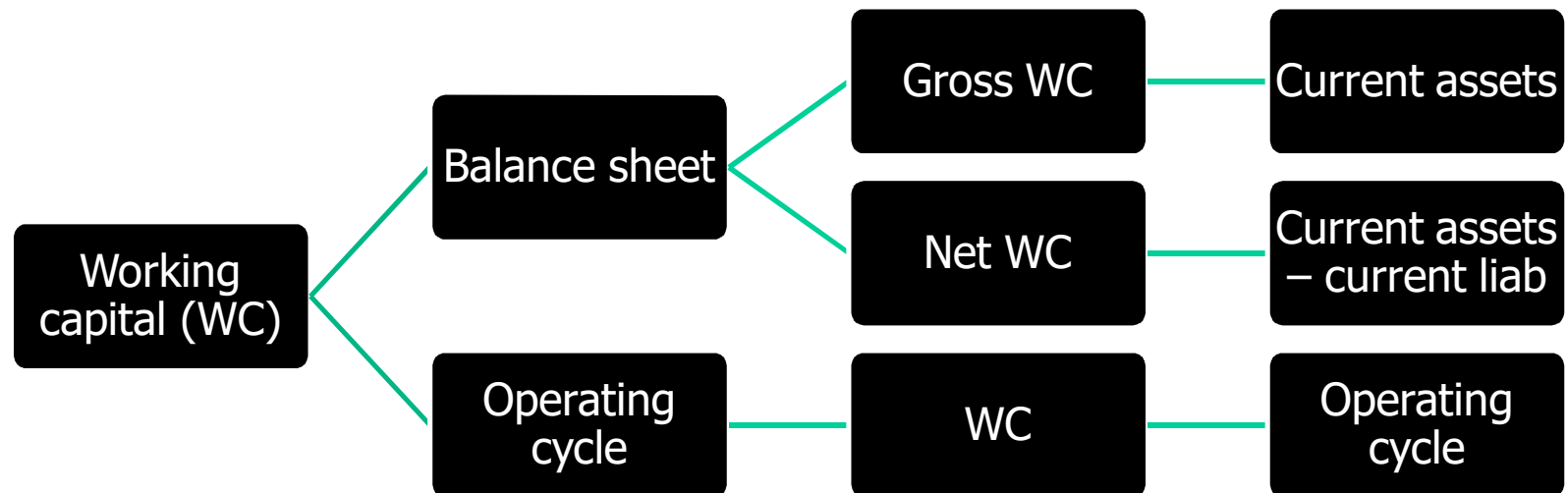
Types of working capital



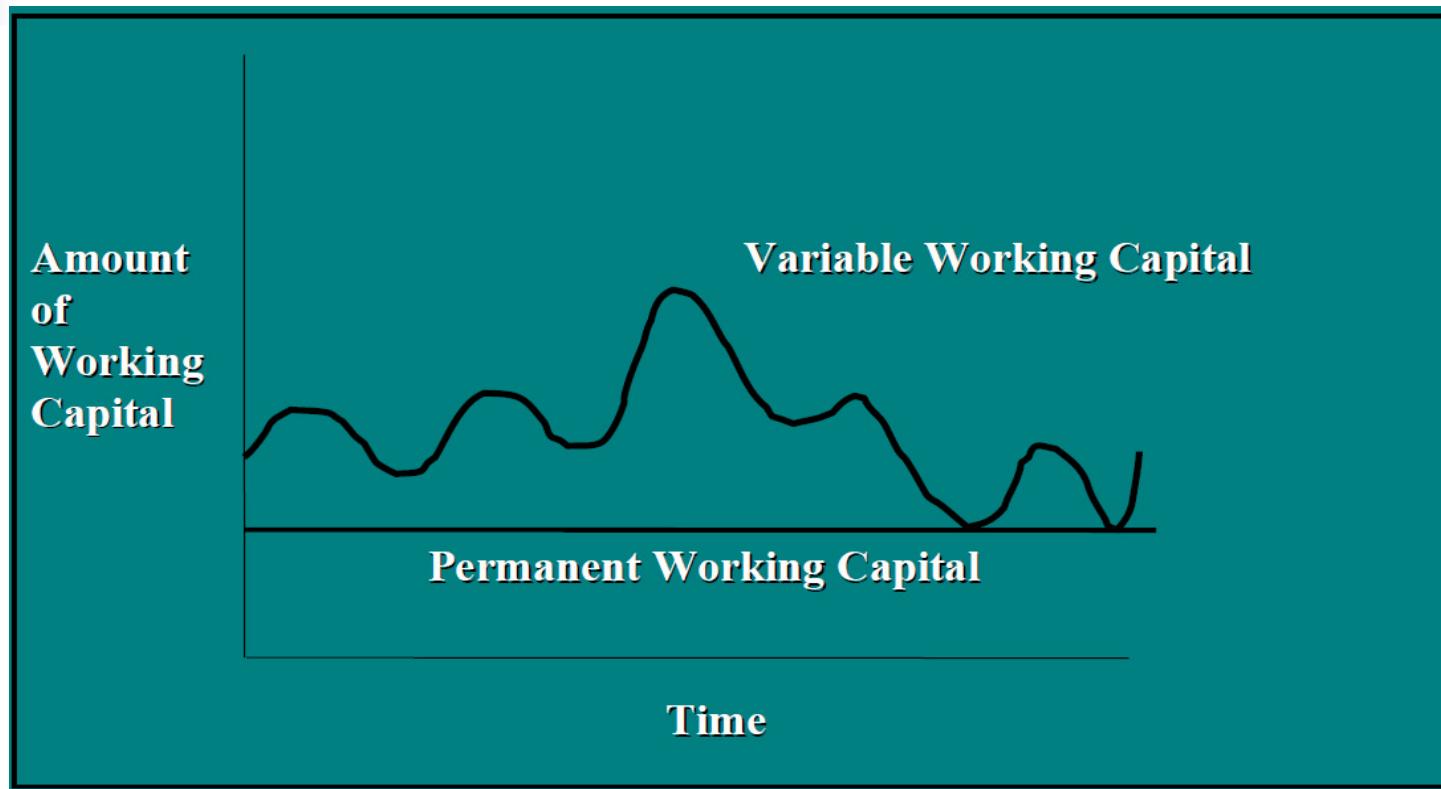
Operating cycle



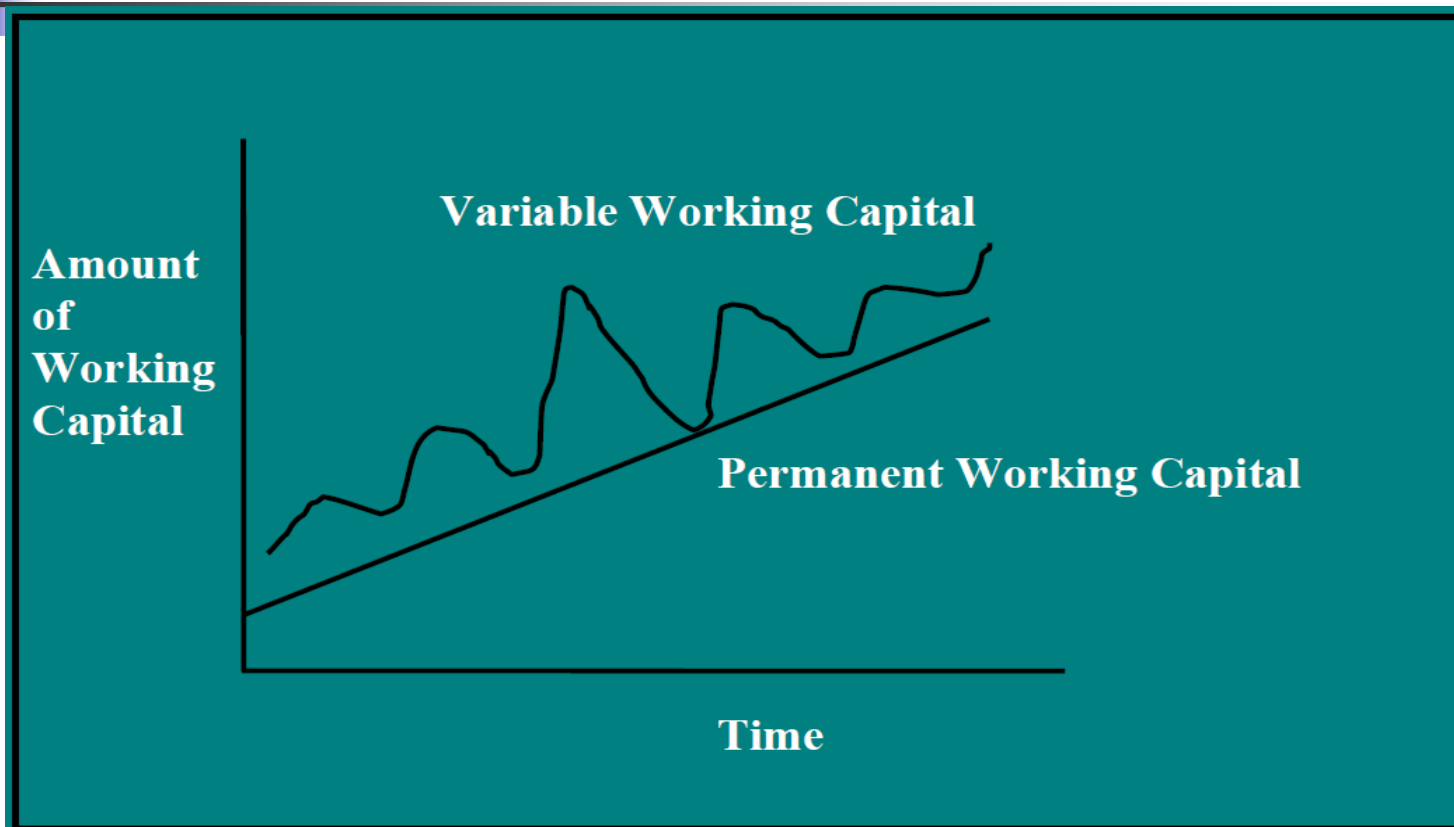
Concepts of working capital



Permanent and variable working capital



Increased operation





Current assets & liabilities - examples

Current Assets	Current Liabilities
Stock	Creditors
Debtors	Bills payable
Bills receivable	Provsion for tax
Marketable securities	Proposed dividend
Cash at Bank	Outstanding expenses
Cash in hand	Bank overdraft

Net working capital – example

Current Assets	Amount Rs.		Current Liabilities	Amount Rs.
Stock	40000		Creditors	20000
Debtors	30000		Bills payable	15000
Bills receivable	15000		Provsion for tax	10000
Marketable securities	20000		Proposed dividend	22500
Cash at Bank	10000		Outstanding expenses	2500
Cash in hand	5000		Bank overdraft	
Total	120000		Total	70000

Net working capital = current assets - current liabilities
= 120000-70000 = Rs. 50000



Importance of working capital

Solvency		Goodwill
Loans		Raw material supply
Cash discount		Regular payment
Exploit market status		Crisis management
Regular RoI		High morale
Credit sales		R&D
Advertisement		Profitability



Redundant working capital

- Decrease in RoI
- Possibility of fall in share price
- Loss of goodwill
- Loss of faith & confidence
- Inefficiency
- Reduced dividend
- Resources not utilized



Inadequate working capital

- Loss of reputation
- Loss of discount
- Hampering production
- Down morale
- Adverse effect on profit
- Deprived of favourable market state
- Decrease in efficiency of fixed asset