Unit- 5 Finance and Accounting

Accounting is an art of recording and reporting of the monetary transactions of a business. Finance is **the science of management of funds of a business**. **Branches**. **Financial Accounting**, Management accounting, Cost accounting, Tax Accounting etc.

Accounting and finance play an essential role in the management of any business. Companies operate on money, and if you don't control that money, you don't control your business. By properly accounting for your company's income and expenses, you can manage the flow of money and thereby direct the course of your business.

What are the Benefits of Accounting for Entrepreneurs?

As an entrepreneur, proper accounting can help you better understand your business's financial health and make informed decisions about your company's finances. Here are some of the main benefits of proper accounting techniques for entrepreneurs:

1. Budget for Expenses

Accounting can help entrepreneurs create and manage detailed budgets for their businesses. When you understand how much money is coming into and going out of your business, you're better equipped to plan for your expenses.

2. Improve Efficiency

With a proper accounting system in place, entrepreneurs can forecast revenues for their businesses. You'll be able to see how efficiently your company generates revenue from your expenses. With that information, you can evaluate your marketing efforts to invest in campaigns that drive revenue and abandon those that don't.

3. Simplify Tax Season

Accounting helps entrepreneurs prepare for tax season, to ease the headache of filing income taxes. With proper accounting and bookkeeping, you'll have all the records of your business's earnings and expenses filed away, which will make filing your income tax quicker and easier.

4. Monitor Your Growth

Accounting gives you a handle on your company's assets and liabilities and how they change over time, which lets you monitor the growth of your business. You can understand what services are driving the most revenue in your business, which can help you adjust your business model to further grow your profits.

Difference Between Accounting and Finance (With Table)

Accounting and Finance are two different disciplines but commonly confused by people because both of them deal with business money and assets.

The **difference between Accounting and Finance** is that Accounting refers to maintaining the daily financial transactions of business while finance refers to the management and investment of money in business properly. Accounting deals with balance sheets and trial balance, finance deals with risk analysis and capital budgeting.

Accounting involves the recording, creation, summation, management, and reporting of day-to-day financial transactions of the business, which ultimately leads to the preparation of business financial statements. Accountants or bookkeepers are responsible for managing the organization's accounting activities and need to ensure that all monetary transactions are correctly captured into the ledger book and balance of accounts are correct, thus financial statements are reliable and accurate.

Finance refers to the science of logical planning and distributing the business assets whereas Accounting is an art of classifying, recording, and reporting the financial figures or transactions of the business.

Finance has a wider scope where management of money and investments are done for public/private corporations, governments, or individuals. Finance supports the integral and crucial decision-making process related to cash management, financial analysis & planning, investments, divestments, working capital management, etc.

Finance professionals are responsible to ensure that adequate capital (funds) is optimally allocated as per the need of a particular segment or situation.

Accounting is used to manage books of accounts and finance is used to manage the funds of the business.

Parameter of Comparison	**Accounting**	**Finance**
Definition	Accounting involves the management of day-to-day financial transactions and the flow of money and then preparing the financial statements.	Finance is a wider and broader term that involves the effective management of business assets and liabilities, and further planning for positive future growth.
Activity Type	It is a kind of post-mortem activity that records what has already happened.	It is a pre-term activity where the comprehensive study is done to realize the funds or assets requirements of an organization or business.
Aim	The main aim of Accounting is to collect, classify, and present the current financial information about the business that can be used internally as well as externally.	The main aim of Finance is to manage, control, strategize, and make decisions about business finances. It involves the view-point of futuristic benefits.

Parameter of Comparison	Accounting	Finance
Scope	Current: The scope of work involves the formulation of the financial statements of the current year.	Future: The scope of work involves assessing financial statements or analyzing and planning for future financial transactions.
Attention to Detail	High	High
Focus	On Reliability & Accuracy.	On Analysis & formulating Insights.
Purpose	Communicating the health of the business financial position i.e. whether incurring profits or loss.	Finding the ways & means on how more value in terms of financial position can be added.
Driven By	Accounting activity is carried by the specific rules that are defined for them i.e. what, when, and how.	Finance is driven by Analysis that is based on the expertise and capabilities of the person or agency in charge.
Used In	Public/private accounting firms, corporations.	Banks, Consultancy, Corporations,
Fund Realization	The determination of funds in Accounting is based on cash flow and receipts & payments that are realized for revenue and returns.	Determination of funds in Finance is based on the accrual system, i.e. revenue is recognized at the time when the sale is done not when it is collected. Expenses are also realized when they are incurred.

What is Accounting?

In *Accounting*, anything that has financial character associated with it in monetary terms is recorded, classified, summarized and then interpreted in a significant manner.

The financial statements prepared by the respective professional are used to understand the financial health of the business i.e. whether a business is making profits or losses. The human competence and aptitude define the reliability and accuracy of financial statements.

This seeks to record and collect all financial transactions of the organization to be used internally and externally. Financial Reports may be read by investors, lenders, or creditors and these reports must portrait fair and accurate information.

The various types of accounting are Financial, Public, Government, Management, and Internal Auditing.

What is Finance?

Finance is a wider and broad term that closely describes the two activities i.e. to assess how the finances or money will be managed and how required funds will be acquired. Money, Credit, Banking, Capital markets, Leverage, Investments, Dis-investments are few concepts that are included in finance.

The finance holds its roots in Microeconomics and Macroeconomics means assessing every aspect of the finances from "how-to", "what to", "where to" and "when to" manage.

Finance is categorized as:

1. ***Personal Finance –*** How a family or individual manages their money or assets like setting financial goals for marriage, education, savings for retirement, assessing taxes, and identifying all short-term or long-term needs.
2. ***Public Finance* –** It is related to the government policies that influence spending, taxes, debt issuance, and budgeting. Its main objective is to know how the government will pay for public services.
3. ***Corporate Finance –*** It takes into account the financial workings of individual corporates or corporations i.e. how they started, grown, and sustained over a period of time.

Main Differences Between Accounting and Finance

No doubt Accounting and Finance share a few fundamental characteristics as both fields are concerned with proper money management and both need the advanced level of education to perform the required task with quantitative & analytical skills but still, both are different.

1. *Accounting* works on what is happening whereas *Finance* sees what we can do for a better future. Accounting has a set of rules and guidelines whereas Finance is purely based on the analytical skills, aptitude, acumen, and expertise of the person.
2. *Accounting* focuses more on the daily movement of money within the purview of organizations i.e. what comes in and what goes out. Whereas in *Finance* focus is on the broad management of organizations' assets and money, and to plan how financial growth can be sustained or made in positive terms.
3. In *Accounting*, the emphasis is more on reporting the financial events that happened in the past and to ensure compliance with accounting norms. But in *Finance*, the emphasis is more on identifying ways to increase funds or money and prevent any losses.
4. *Accounting* professionals need to be fastidious with concrete attention to details, whereas in *Finance* professional needs to be long-term visionary and thinkers.
5. Subjects like accounting theory, accounting practices, business and tax law, and accounting ethics make the base of study for *Accounting*. And in *Finance*, financial engineering, microeconomics, and macroeconomics subjects make the study base.

What are the two main finance activities?

The term finance is generally used as a synonym for funding or management of funds. In this context, the two main types of financial activities are:

1. Securing a loan or raising capital through issuing bonds, debentures, or equity shares these kinds of activities to help an individual or business owner in receiving money. In other words, these finance activities lead to cash inflow.
2. Investing in a business organization or a company through direct lending or purchase of shares these are finance activities that lead to cash outflow.

Working and· fixed capital :

Fixed capital includes **the assets or investments needed to start and maintain a business**, like property or equipment. Working capital is the cash or other liquid assets that a business uses to cover daily operations, like meeting payroll and paying bills.

Fixed and working capital are both vital to a small business. Fixed capital includes the assets or investments needed to start and maintain a business, like property or equipment. Working capital is the cash or other liquid assets that a business uses to cover daily operations, like meeting payroll and paying bills.

While both fixed and working capital are necessary for running a successful business, they are two distinct types of capital.

What Is Fixed Capital?

- Fixed capital includes property, facilities, equipment and tools that your business uses on an ongoing basis. Entrepreneur lists some additional examples of long-term assets.
- These assets, such as vehicles, real estate, commercial ovens and construction equipment, are not easily liquidated (or turned to cash) but they may be resold and reused at any time.
- Fixed-capital investments are usually depreciated on the company's accounting statements over a long period of time, but can sometimes be deducted all at once with the Section 179 deduction.

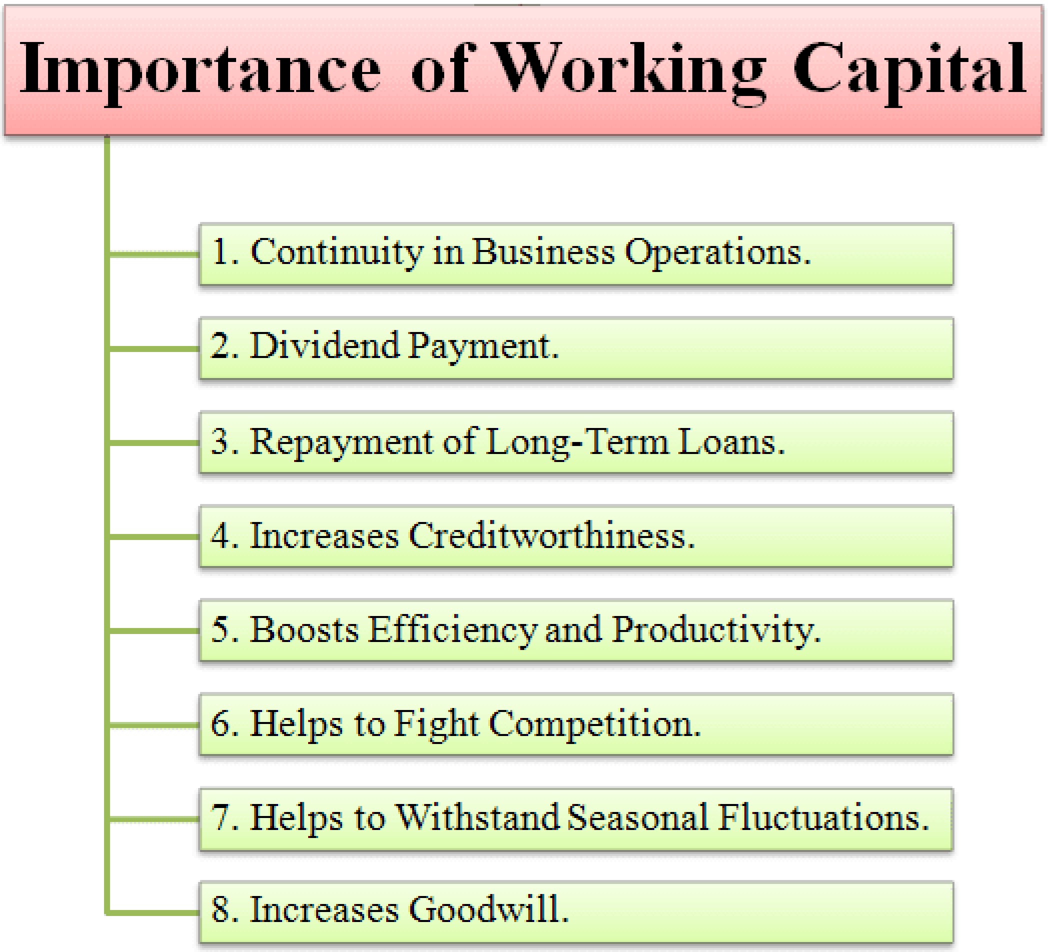
What Is Working Capital?

- Working capital is the difference between a company's current assets (what you have) and liabilities (what you owe).
- This figure measures how efficiently you're operating, your company's liquidity, and its short-term financial health.
- Working capital allows a business to expand. Without working capital, it's difficult for a company to grow, pay off debts and become (or remain) profitable.
- When small business owners come up short on working capital, they often turn to working capital loans to fill the gaps.

Importance and scope:

Role or Importance of Fixed Capital

1. Fixed capital is required to buy fixed assets for the company.
2. It is needed to meet various promotionl expenses of a company.
3. It aids company to modernise by easing the purchase of modern machines and implementation of latest technologies.
4. It is necessary to replace out of date and scrapped assets.
5. It helps in expansion and diversification of a company.
6. It also helps in automation of a company.
7. It is essential if a company decides to widen it scope of activities.
8. It increases the capital requirements of a company.



Assessment of working capital and fixed capital

Working capital assesses **a company's ability to pay its current liabilities with its current assets**, giving us an indication of the subject's short-term financial health, capacity to clear its debts within a year, and operational efficiency.

Assessment of Fixed Capital Requirements: **Capital needed to acquire those assets which are used for production purposes for longer period of time and which are not acquired for selling purposes** is termed as fixed capital or block capital. ... Thereafter, cost of these assets is estimated.

How to assess your Working Capital Requirement (WCR)

Do you know how much **working capital** is required to run your business? The more money you are obliged to spend covering your obligations, the less money and flexibility you will have to seize opportunities, such as expanding your product line to meet new demand. In this article, we examine how to assess working capital requirement and its implications for your business.

Why working capital is essential

Working capital is the lubricant that keeps your company's finances running. In accounting terms, it is current liquid assets - such as cash, inventories and accounts receivable - minus current liabilities, such as accounts payable. Too little working capital can signal liquidity problems; too much working capital suggests you are not using your assets efficiently to increase revenues.

The question is: do you hoard cash and keep your working capital robust or run it low to take advantage of opportunities? Finding **the right balance for this measure of assets to liabilities** has become a moving target during the Covid-19 crisis. No matter how good your prospects are, your company will face bankruptcy if you can't pay the bills; but you will shrivel up in the long term if you don't invest.

Assessing and determining working capital requirements for your company can help you find that balance.

How to assess the Working Capital Requirement or WCR?

What is the working capital requirement (WCR)?

The Working Capital Requirement (WCR) is a financial metric showing the **amount of financial resources needed to cover the costs of the production cycle,** upcoming operational expenses and the repayments of debts. In other words, it shows you the amount of money needed to finance the gap between payments to suppliers and payments from customers.

Working capital requirement calculation

The key components of the working capital requirement formula are accounts receivable (measured through the DSO, for Days Sales Outstanding), inventory (measured through the DIO, for Days Inventory Outstanding) and accounts payable (measured through the DPO, for Days Payable Outstanding).

Logically, the working capital requirement calculation can be done via the following formula:
WCR = Inventory + Accounts Receivable – Accounts Payable.

Understanding a change in working capital requirement

If you're wondering how to assess your working capital requirement, look at its components first. A rise in WCR comes either from a higher number of accounts receivable, a higher inventory, or a lower number in accounts payable. And the reverse – that is, if the result of your working capital requirement calculation shows a drop – comes from either a lower DSO or DIO, a higher DPO, or a combination thereof.

A rise in WCR usually means companies are spending a lot of their financial resources just running the business and therefore have **less money to pursue other objectives** such as new product development, geographical expansion, acquisitions, modernisation or debt reduction. **The higher your working capital requirement, the more constraints you face** in making forward-looking investments. So monitor any change in working capital requirement closely!

The working capital ratio: another key metric

Another metric showing the ability of your company to pay for its current liabilities with its current assets is the **working capital ratio**. However, instead of resulting in a hard number, as does the working capital requirement, the working capital ratio is a percentage, showing the relative proportion of your company's current assets to its current liabilities.

A good working capital ratio is **considered to be 1.5 to 2,** and suggests a company is on solid financial ground in terms of liquidity. **Less than one is taken as a negative working capital ratio,** signalling potential future liquidity problems. An exception to this is when negative working capital arises in businesses that generate cash very quickly and can sell products to their customers before paying their suppliers.

As Philippe Vammale, Head of Risk Underwriting at Euler Hermes France also warns: "Although the working capital is a key metric, more and more companies improve their working capital and in fine their cash position by using financing structured as factoring and reverse factoring. Faced with these financial technicalities, the working capital analysis requires more attention and rigor as illustrated recently with the bankruptcy of the speciality finance firm Greensill Capital."

What is affecting your working capital requirement?

The biggest drain affecting your working capital requirement is payment delays. Late payments can force many companies to draw on their working capital to pay the bills in the best of times, and in fact payment delays are the leading cause of insolvencies.

"Cash is king; cash flow is and will remain the sinews of war," says Philippe. **"25% of business failures are the result of suspension of payments.** It is therefore essential that companies manage their cash flow rigorously."

For example, **monitor customer payments** by requesting acknowledgement of invoices sent and follow up with reminders when payment terms have been breached. But be flexible before taking costly legal actions and maintain good customer relationships..

Determining working capital requirements to ensure future business growth

Over the past year, **liquidity from government stimulus** and tax supports injected much-needed cash into the economy and helped keep businesses afloat. Small business loans with attractive lending terms have allowed companies to benefit from the current low-interest-rate environment and upgrade, invest in projects, or make acquisitions that will ensure future profitability.

Before taking the investment step, **bring in expert trade and risk analysis** to help you find the balance between being too aggressive because of FOMO (fear of missing out) and being too conservative, with the risk of being overtaken by the competition. In addition, the recovery could be different from country to country. That's something to keep in mind as you choose your investment targets. For example, an expert trade credit insurer can advise and help you make better-informed decisions.

Determining working capital requirements and understanding any changes will **provide some margin for your company to manoeuvre** and help you develop a forward-looking view and ensure future growth.

Assessment of Fixed Capital Requirements:

Capital needed to acquire those assets which are used for production purposes for longer period of time and which are not acquired for selling purposes is termed as fixed capital or block capital. Obvious examples of fixed capital are capital for purchasing land and buildings, furniture's and fixtures and machinery and plant.

Such capital is required usually at the time of establishment of new enterprise. However, existing undertakings may also need such capital to finance expansion and development programs and to affect replacement of equipment.

Initial planning of fixed capital requirements is made by the promoter. For this purpose first of all, he prepares a list of fixed assets to be needed by the firm in consultation with his colleagues and technical experts associated with that line of business. Thereafter, cost of these assets is estimated.

There is generally no problem in getting information regarding value of land. Cost of construction of building could be surmised with the help of building contractor. Value of plant and machinery could be determined by obtaining price list from their manufacturers. If the costs of different fixed assets are summed, the resulting figure would be the total of fixed capital requirement of a new undertaking.

Planning fixed asset requirements is the most difficult task which calls for greater acumen and skill on the part of the projector. This is essentially because of relatively high cost of the fixed assets as compared to current assets and any errors resulting from the acquisition will have long-term adverse effect on financial health of the enterprise and so also its profitability. Furthermore, risk factor is greatly associated with investment in fixed assets.

The longer the life of assets, the greater the risk the management assumes when it commits itself for this asset. In recent years problem of estimating fixed asset requirements has assumed considerable significance particularly because modern industrial processes require increasing use of capital equipment.

Mass production method and automation demand ever increasing commitment in fixed assets. Further, rising wage rates are encouraging the constant search for mechanical substitutes for labour. In view of this, the finance manager must bear in mind various internal and external factors that affect initial investment in fixed capital requirement.

Factors Affecting the Estimate of Fixed Assets Requirements:

A. Internal Factors:

(i) Nature of Business:

Different industrial undertakings may have varying fixed capital requirements because of different nature of business and the technology of the industry in which a company operates. Concerns engaged in rendering personal services, merchandise, commerce and trade may need very little fixed investment.

As against this, manufacturing industries, and public utilities have to commit substantially large amount of funds to acquire fixed assets. Here too, fixed capital requirements in capital intensive industrial projects is much greater in relation to their labour intensive counterparts.

(ii) Size of Business:

Where a business enterprise is being set up to carry on large scale operations, naturally its fixed capital requirements are likely to be high since most of their production processes are based on automatic machines and equipment's. But in smaller concerns use of automatic machines is not so economical and useful because these machines are not employed to the optimum level.

(iii) Scope of Business:

Sometimes enterprises are established to engage in only one phase of production or distribution activity. In a sharp contrast to this, there are many business firms which are formed to carry on production or distribution work in its entirety. Obviously, in the former case fixed capital requirements would be less relative to the latter case.

(iv) Extent of Lease:

While planning fixed capital requirements an entrepreneur has to decide in advance as to how many assets would be acquired on lease hold basis and how many on free hold basis. If larger amount of fixed assets is to be acquired on lease basis, naturally less amount of funds will have to be committed in the enterprise.

(v) Arrangement of Subcontract:

In case an entrepreneur has thought out an arrangement of contracting out some process of production to others or he has decided to engage in assembling the parts being manufactured by others he will require only those assets that will help in carrying out the process of production in which the firm will be engaged. This would consequently minimise fixed capital requirements of the enterprise.

(vi) Acquisition of Old Equipment's:

In certain industrial areas where the rate of technological change in production method is slow or moderate, old equipment's of plant available at prices that are far below those of new equipment's or plant may be used satisfactorily. Their use can materially reduce the required investment in fixed assets.

(vii) Acquisition of Accommodation on Rent:
The extent to which needed plant or equipment is available on reasonable rental terms also determines the required investment in fixed assets. Many retailers and some manufacturers whose space needs are distinctive, are able to meet their major building needs through rental.

(viii) Availability of Fixed Assets on Concessional Rates:
With a view to fostering balanced industrial growth and regional development of industries the Government may provide land and other building materials at concessional rates. Plant and equipment may be made available on installment purchase system. Such facilities are very likely to reduce the requirements of fixed assets.

B. External Factors:
Since fixed asset investment is a long-term one where amount of risk is comparatively more, the promoter should also consider the following external factors:
(i) International Conditions:
This factor is assuming prominent role in the decision making process in globalized scenario particularly in large concerns carrying on business on international scale. For example, steel companies expecting war may decide to commit large funds to expand fixed assets before there is a shortage of material or before inflation becomes reality. An international crisis may force some companies to postpone their expansion plans.

(ii) Secular Trend in the Economy:

An in-depth study of long-run trends in the economy must be undertaken while assessing requirements for fixed assets. If the future of the economy is anticipated to be bright, it gives green signal to business entrepreneur to carry out all sorts of expansions of the firms. In that case large amount of funds has to be committed right now in fixed assets so as to be ready to reap benefits when opportunity arises.

(iii) Population Trends:

If the firm has a national market, national population trend must be evaluated while forecasting for fixed asset needs. In India, the population is increasing at a high rate. Automobile manufacturers find this a factor that encourages them to expand. The age composition of the population may be important for certain businesses like furniture industry and the optical industry.

(iv) Consumer's Preferences:

Financial planning must be geared to acquiring fixed assets that will provide goods or services that consumers will accept.

(v) Competitive Factors:

Competitive factors are a prime element in the decision-making process on planning future fixed assets needs. If company A shifts to automation, company B engaged in the same line of activity will follow the need of the innovator.

(vi) Shift in Technology:

Shift in technology should also be considered while estimating fixed asset requirements.

Financial Institutions:

There are nowadays a large number of financial institutions like Industrial Development Bank of India (IDBI), **Small Industries Development Bank of India (SIDBI)**, and various commercial banks provides financing needs of entrepreneurs.

Role of financial institutions towards entrepreneurship

1. 1. Role of financial institutions towards entrepreneurship Presented by any type of entrepreneur.
2. 2. Entrepreneurial activities are substantially different depending on the type of organization and creativity involved. French verb 'entreprendre' which means 'To undertake' undertakes innovations or introducing new things as the pursuit of opportunity undertakings creating many job opportunities the gale of creative destruction
3. 3. Financial institutions who support 1. IFCI (Industrial Finance Corporation of India) 2. ICICI (Industrial Credit Invest. Corp. of India) 3. IDBI (Industrial Development Bank of India) 4. LIC (Life Insurance Corporation) 5. UTI (Unit Trust of India) 6. SIDBI (Small Industries Dvlp. Bank of India) 7. NSIC (National Small Industries Corporation)
4. 4. 1. IFCI (Industrial Finance Corporation of India). It was established in 1948. It provides assistance for institutional infrastructure. Merchant banking operations. It helps in improving the productivity of various factors of production for the socio-economic objective of the country. It provide needed guidance in project evaluation, identification, formulation, implementation, operation etc It undertakes research and survey for the sake of industrial development. It gives its helping hand with respect to technical and admin. It provides advance loans for various purposes.
5. 5. 2. ICICI (Industrial Credit Invest. Corp. of India) It was established in 1955. It assisting long term funds for capital assets. Direct subscription to securities. Provide long term loans in rupees. Guaranteeing payments for credits. Leasing of equipment. It conduct techno economic survey for backward areas. Provide credit facility to indigenous manufacturer.

6. 6. 3. IDBI (Industrial Development Bank of India). It was establishing in1964 as an apex lending financial institution and subsequently reconstructed on the principal institution. Direct assistance to industrial concerns in the firm of underwriting of shares debentures. Soft loans for modernization renovation and replacement of existing industries. Rediscount bills arising out of sale of indigenous machinery on differed payment. Finance export-oriented industries.
7. 7. 4. LIC (Life Insurance Corporation). This corporation establishing in 1965. It works in close liaison with the other all India financial institutions in providing finance directly to the industries. Helping industry concern by its underwriting support.
8. 8. 5. UTI (Unit Trust of India). This was established in 1956. It subscribes to industrial security and also to purchase outstanding securities in the secondary market. It is governed by the consideration of yield and Security as it has obligation to earn a reasonable rate of return for its holders in its various schemes without exposing customer to undue risk.
9. 9. 6. SIDBI (Small Industries Dvlp. Bank of India). It was setup in 1989. Discounting & rediscounting of bills. Extension of risk capital or soft loan assistance to Inds. Extending financial support to SSIDC & NSIC. Technological upgradation & modernization services to the industries. Promotes employee-oriented industries especially in semi urban area.
10. 10. 7. NSIC (National Small Industries Corporation). It was set up in 1955 as a public undertaking. Procuring government orders for small scale units. Developing the SSI as ancillaries to large industries. Developing and upgrading technology particularly for projects based on wastes. Importing and distributing scare raw materials, components and parts among actual users in the SSI.

Factors Affecting Working Capital

Main factors affecting the working capital are as follows:

(1) Nature of Business:

The requirement of working capital depends on the nature of business. The nature of business is usually of two types: Manufacturing Business and

Trading Business. In the case of manufacturing business, it takes a lot of time in converting raw material into finished goods. Therefore, capital remains invested for a long time in raw material, semi-finished goods and the stocking of the finished goods.

Consequently, more working capital is required. On the contrary, in case of trading business the goods are sold immediately after purchasing or sometimes the sale is affected even before the purchase itself. Therefore, very little working capital is required. Moreover, in case of service businesses, the working capital is almost nil since there is nothing in stock.

(2) Scale of Operations:

There is a direct link between the working capital and the scale of operations. In other words, more working capital is required in case of big organizations while less working capital is needed in case of small organizations.

(3) Business Cycle:

The need for the working capital is affected by various stages of the business cycle. During the boom period, the demand of a product increases and sales also increase. Therefore, more working capital is needed. On the contrary, during the period of depression, the demand declines and it affects both the production and sales of goods. Therefore, in such a situation less working capital is required.

(4) Seasonal Factors:

Some goods are demanded throughout the year while others have seasonal demand. Goods which have uniform demand the whole year their production and sale are continuous. Consequently, such enterprises need little working capital.

On the other hand, some goods have seasonal demand but the same are produced almost the whole year so that their supply is available readily when demanded.

Such enterprises have to maintain large stocks of raw material and finished products and so they need large amount of working capital for this purpose. Woolen mills are a good example of it.

(5) Production Cycle:

Production cycle means the time involved in converting raw material into finished product. The longer this period, the more will be the time for which the capital remains blocked in raw material and semi-manufactured products.

Thus, more working capital will be needed. On the contrary, where period of production cycle is little, less working capital will be needed.

(6) Credit Allowed:

Those enterprises which sell goods on cash payment basis need little working capital but those who provide credit facilities to the customers need more working capital.

(7) Credit Availed:

If raw material and other inputs are easily available on credit, less working capital is needed. On the contrary, if these things are not available on credit then to make cash payment quickly large amount of working capital will be needed.

(8) Operating Efficiency:
Operating efficiency means efficiently completing the various business operations. Operating efficiency of every organization happens to be different.

(9) Availability of Raw Material:
Availability of raw material also influences the amount of working capital. If the enterprise makes use of such raw material which is available easily throughout the year, then less working capital will be required, because there will be no need to stock it in large quantity.

On the contrary, if the enterprise makes use of such raw material which is available only in some particular months of the year whereas for continuous production it is needed all the year round, then large quantity of it will be stocked. Under the circumstances, more working capital will be required.

(10) Growth Prospects:
Growth means the development of the scale of business operations (production, sales, etc.). The organisations which have sufficient possibilities of growth require more working capital, while the case is different in respect of companies with less growth prospects.

(11) Level of Competition:
High level of competition increases the need for more working capital. In order to face competition, more stock is required for quick delivery and credit facility for a long period has to be made available.

(12) Inflation:

Inflation means rise in prices. In such a situation more capital is required than before in order to maintain the previous scale of production and sales. Therefore, with the increasing rate of inflation, there is a corresponding increase in the working capital.

Components of Working Capital:

- 1) Current Assets:
- 2) Cash and Cash Equivalents.
- 3) Account Receivables:
- 4) Inventory:
- 5) Accounts Payable:

1) Current Assets:

Current assets are the one side of working capital formula. They can be defined as, type of assets which are easily convertible to cash in less than one year are called current assets.

Current assets are mainly utilized to meet the requirements of daily operations of the business.

Working capital management is mainly controlled by managing current assets of the business.

Current assets are composed of cash and bank balances, trade receivables, short term advances, prepaid expenses, inventory and short-term investments.

2) Cash and Cash Equivalents

You will see the term cash under the current assets in the balance sheet. This is the most liquid of funds and very essential for every business to maintain the smooth operations of their business.

Sufficient amount of cash should be present with the company to fill any unexpected gaps in the production and sales cycle.

3) Account Receivables:

The account receivable is the amount of money receivable from clients arises due to credit sales by the company in the normal course of business. You will find account receivables on the company's balance sheet under the current assets.

The important point is that they are classified as assets but in real, they are not available for usage until realized in more liquid form.

This is an important component of working capital management and should be efficiently manage to improves the financial health of the company's operations.

4) Inventory:

Stock / Inventory are the goods, which purchased by company with a view to resell in the market and earn profits. The turnover of inventory determines how the successful the business is.

5) Accounts Payable:

Accounts payable are the obligation upon company to pay off its debt due from its creditors, and suppliers.

Accounts payable comes under the head of current liabilities and one of the major components of working capital management. Accounts payable can be managing through negotiations with creditors to extend the payment period.

Like the management of account receivable and inventory, accounts payable management is also a key component in managing working capital.