Permanent Working Capital

- It refers to the minimum amount which is invested in those current assets which is constantly and continuously required by business unit to carry on its operations. Some minimum amount of raw materials, work-in-progress, bank balance, finished goods etc. a business has to carry all the time irrespective of the level of manufacturing or marketing operations.

- This part of the working capital being a permanent investment needs to be financed through long-term funds.

- It grows with the size of the business and it remains in the business in one or the other form.

- For a growing business the permanent working capital will be rising, for a declining business it will be decreasing and for a stable business it will almost remain the same with few variations.

- The supplier of fund should not expect return during the life time of business in one or other form.

Variable Working Capital

- It refers to that working capital, the requirement of which keeps on fluctuating depending on the needs of business unit. Any amount over and above the permanent or fixed capital of working capital is variable, temporary or fluctuating working capital.

- This type of working capital is generally financed from short term sources of finances such as bank credit because this amount is not permanently required and is usually paid back during off season or after the contingency.

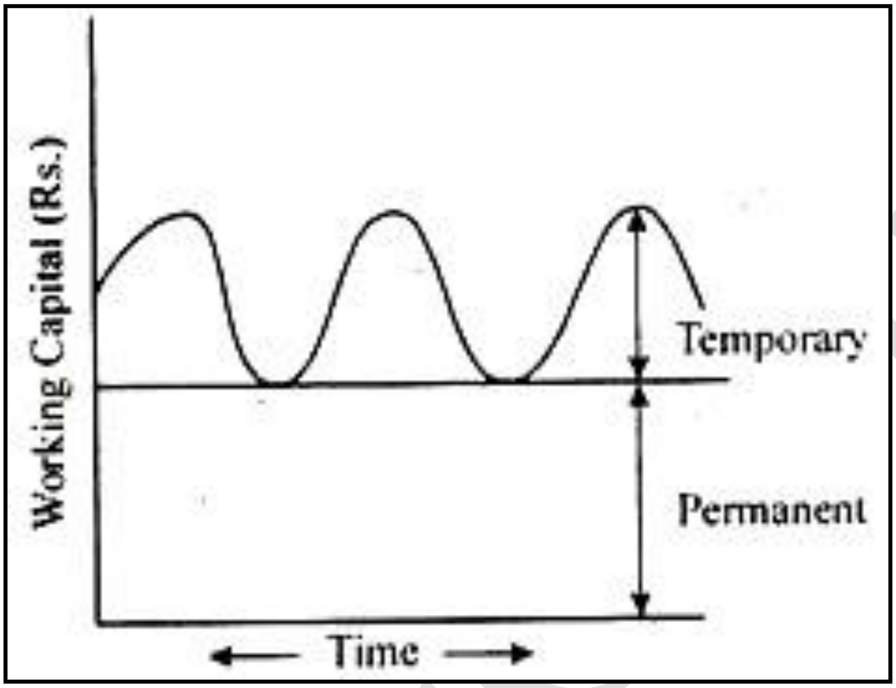
- Its requirement depends upon the project undertaken by the company or firm.

- During seasons, more production/sales take place resulting in larger working capital needs. The reverse is true during off-seasons. As seasons vary, temporary working capital requirement moves up and down.

- The supplier of fund can expect return during the off seasons when the working capital is not required.

It can be said that Permanent working capital represents minimum amount of the current assets required throughout the year for normal production whereas Temporary working capital is the additional capital required at different time of the year to finance the fluctuations in production due to seasonal change. A firm having constant annual production will also have constant

Permanent working capital and only Variable working capital changes due to change in production caused by seasonal changes.



Similarly, a growth firm is the firm having unutilized capacity, however, production and operation continues to grow naturally. As its volume of production rises with the passage of time so also does the quantum of the Permanent working capital.