

CLASS - BBA IInd YEAR

SUBJECT - FINANCIAL MANAGEMENT

TOPIC - MANAGEMENT OF

WORKING CAPITAL

Introduction :-

In business, money is required for fixed assets and working capital. Fixed assets include land and building, plant and machinery, etc. Working capital is required for efficient and effective use of fixed assets.

Meaning Of Working Capital:-

Working Capital is the difference between current assets and current liabilities.

$$\text{Working Capital} = \text{Current asset} - \text{Current lia.}$$

Working Capital is the amount required to carry out day-to-day operations.

Concept of Working Capital:-

There are two concepts of working capital :-

i) Gross Working Capital

ii) Net Working Capital.

★ Gross Working Capital → According to this concept, working capital means Gross working capital which is total of all the current assets of business.

Gross Working Capital = Total Current assets

★ Net Working Capital :- According to this concept, working capital means net working capital which is excess of current asset over current liabilities

Net Working Capital = Current Asset - Current liabilities

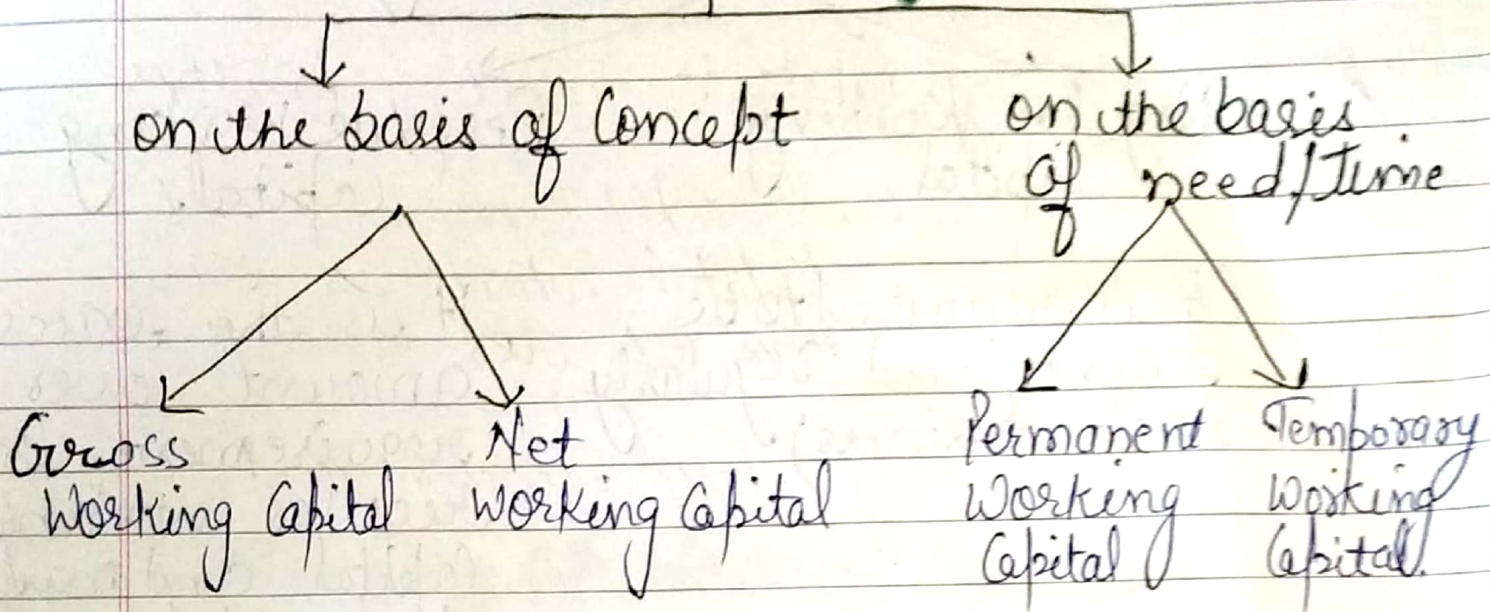
Now, if $CA = CL$ then $NWC = 0$.

If $CL > CA$ then NWC will be negative.

Current Asset :- It include those assets which can be converted into cash within a short period of time not exceeding one year. It includes cash, bank, debtor, bill receivables, etc.

Current liabilities :- It includes those liabilities which have to be paid within a short period of time not exceeding one year. It includes creditors, bills payable, short term loans, etc.

Types of Working Capital

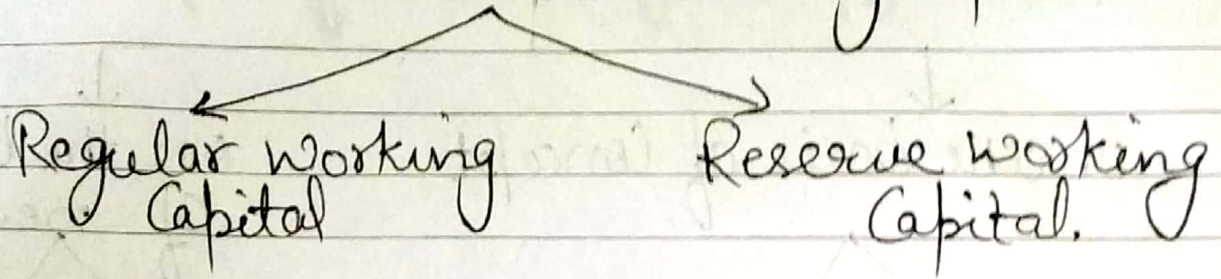


(A) on the basis of Concept
 a) Gross working Capital
 b) Net working Capital] Discussed above

(B) on the basis of need/time

a) Permanent Working Capital :- Permanent or fixed working Capital is the minimum amount which is required to ensure effective utilisation of fixed facilities and for maintaining the circulation of current assets.
 For example:- every firm has to maintain a minimum level of raw materials, finished goods and cash balance.

Permanent working Capital



(It is required to be maintained regularly in the business)

It is the excess amount over requirement for regular working Capital and may be provided to meet contingency such as strike, rise in price, etc.

(b) Temporary or Variable Working Capital:-

It is amount of working Capital which is required to meet seasonal demands due to seasonal change, level of business is higher than normal during some months of year and therefore, additional working Capital will be required alongwith permanent Working Capital.