



SNS College of Technology

Coimbatore - 35



23BAT611 – Financial Management



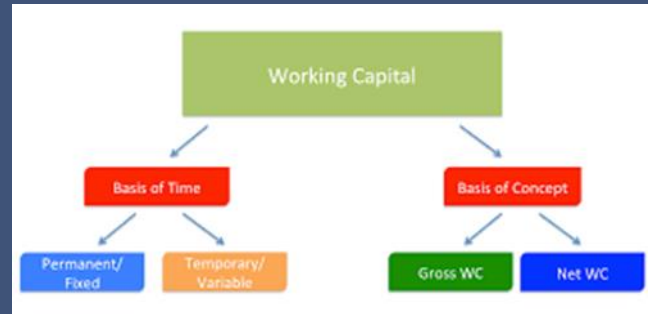
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Redesigning Common Mind and Business
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Recap





Topic





ESTIMATION OF WORKING CAPITAL

- Total quantity of units to be produced throughout the year
- The total cost incurred on raw material, labour and overheads
- The length of time raw materials are to remain in stores before they are issued to production
- The length of production cycle time
- The length of sales cycle. That is, period during which finished goods remain in warehouse
- Average credit to debtors
- Amount required for day to day expenses
- Amount of credit allowed by creditors
- Time lag in payment of wages



Methods for Estimating WC

- **By determining current assets and current liabilities:**
In order to estimate the requirements of working capital one has to forecast the amount of current assets and current liabilities
- **Operating cycle method:** $O = (R + W + F + D) - C$
- **Percentage of sales method :** working capital requirement is calculated on the basis of percentage of sales.
- The criticism of this method is that it assumes a linear relationship between sales and working capital



Contd..

- Percentage of total assets or fixed assets
 - Working capital requirements are determined on basis of fixed assets
 - Example: A firm is expecting to have 20% of its total assets in form of current assets and expects to have a total assets of Rs.50,00,000
 - Then the current assets should be Rs.10,00,000



Assessment



Outline the concept of Operating Cycle





Summary

➤ **Types of Working Capital**

SUMMARY





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