

WORKING CAPITAL MANAGEMENT

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Need and Objects of Working Capital

- Every business needs some amount of working capital
- The need for working capital arises due to the **time gap** between production and sales, sales and realisation of cash.
- This time gap is termed to as “operating cycle”



Operating Cycle

- Conversion of Cash into Raw materials
- Conversion of Raw materials into work-in-progress
- Conversion work-in-progress into finished goods
- Conversion of finished goods into debtors through sales
- Conversion of debtors into cash



Characteristics of Working Capital

- Short-term Needs
- Circular Movement : Cash is used to purchase current assets
are transferred into cash
- Element of Permanency : As long as production continues
- Element of Fluctuation



Need of Working Capital

- To purchase raw materials, spares and component parts
- To pay wages and salaries
- To incur day to day expenses
- To meet selling costs such as packaging, advertising
- To provide credit facilities to customers
- To maintain inventories of raw materials, work-in-progress and finished goods



SUMMARIZE