

COURSE. : III B. COM (CA)

SEMESTER. : 6

SUBJECT. : FINANCIAL MANAGEMENT (18BCA62C)

PREPARED BY. :DR. P.SRIDEVI

PHONE NO. :9894025186

UNIT – IV

Working Capital Management- Meaning, Definition, Types of working capital, Sources of Working Capital-Determinants of working capital requirement.

WORKING CAPITAL MANAGEMENT

Operates efficiently by monitoring and using its current assets and liabilities to the best effect. The primary purpose of working capital management is to enable the company to maintain sufficient cash flow to meet its short-term operating costs and short-term debt obligations.

DEFINITION

Working capital management is a business strategy designed to ensure that a company operates efficiently by monitoring and using its current assets and liabilities to the best effect. A company's working capital is made up of its current assets minus its current liabilities.

TYPES OF WORKING CAPITAL.

Permanent Working Capital

Regular Working Capital

Reserve Margin Working Capital

Variable Working Capital

Seasonal Variable Working Capital

Special Variable Working Capital

Gross Working Capital

Net Working Capital

SOURCES OF WORKING CAPITAL.

Trade Credit

Sundry Creditors

Bills Payable

Notes Payable

Accrued Expenses

SHORT TERM SOURCES OF WORKING CAPITAL

Short-term Internal Sources

Tax Provisions

Dividend Provisions

Short-term External Sources

Short-term working capital financing from banks such as

Bank Overdrafts,

Cash Credits,

Trade Deposits,

Bills Discounting,

Commercial Paper, Etc.

LONG-TERM SOURCES OF WORKING CAPITAL

Long-term Internal Sources

Retained Profits

Provision For Depreciation

Long-term External Sources

Share Capital

Long-Term Loan

Debentures

DETERMINANTS OF WORKING CAPITAL REQUIREMENT

1. Nature of business
2. Length of period of manufacture
3. Volume of business
4. The proportion of the cost of raw materials to total cost
5. Use of Manual Labour or Mechanisation
6. Need to keep large stocks of raw materials of finished goods
7. Turnover of working capital
8. Terms of Credit
9. Seasonal Variations
10. Requirements of Cash .