

Section-4

(2)

What are the approaches of working Capital?

The approaches of working Capital are:

A) Matching or hedging approach →

This approach matches assets and liabilities to maturities. Basically a company use long term sources to finance fixed assets and permanent current assets and short term financing to finance temporary current assets.

For example →

A fixed assets which is expected to provide cash flow for 5 yrs should be financed by approx 5 yrs long term debts.

B) Conservative approach →

It is conservative because the company prefer to have more cash on hand. That why fixed and part of current assets are financed by long-term or permanent funds. As permanent or long term sources are more expensive, this

leads to lower risk lower Returns.

c) Aggressive approaches →

The company wants to take high risk where short term funds are used to a very high degree to financing current & even fixed assets.