

Section - 9

(2)

What are the types of working Capital?
Explains its determinants also. What is
operating cycle or working Capital
cycle. Explain it?

Types of working Capital →

(1) On the basic of concepts →
On Conceptual
basic, working Capital is Classified
as Gross working Capital and net
working Capital.

1. Gross working Capital →
The amt which
a company has invested into its
current assets is referred to as
Gross Working Capital.

2. Net working Capital →
The difference b/w
current assets / current liabilities of
a company is referred to as the
net working Capital.

On the basis of Time →

working capital may be classified into

- ① Permanent / Fixed w.c.
- ② Variable w.c.

① Permanent Working Capital

Working Capital required by a company to manage its operation is referred to as the permanent working capital. It is also termed as fixed working capital. Its level is not dependent on the production or sales of product. Due to its nature of permanence, it is similar to F.A or the long period of time.

② Regular Working Capital :-

Minimum level of permanent working capital needed for the conversion from one stage to another, like from cash to inventory.

③ Reserve Working Capital

permanents w.c which is in excess of Regular w.c is termed as Reserve w.c

Variable working Capital :- The CA is not required to be maintained throughout the yrs by a manufacturing unit. Generally the demand for a product cycle on the basis of demand.

The level of demand of a product is not uniform throughout the year as a result the level of production and sales also fluctuates, and so does the level.

Permanent W.C are Temporary Working Capital; variable working Capital, fluctuating W.C or Cyclical working capital.

There are two Temporary W.C are
(i) Seasonal working Capital.

(ii) Special working Capital.

Determinants of working Capital

1) Nature of business

The nature of company business is the prime determinants of its working Capital requirement.

businesses of small size, especially those engaged in trading of goods, need high level of working Capital to fulfil their daily cash requirements.

2) Nature of Demand

Market demand of the product manufactured by a company influence its working Capital requirement. A company whose product can be sold smoothly need to lower level of working Capital when compared with another company.

3) Production policy

Production policy of company is another deciding factor with regard to the level of its working Capital requirement.

4) Manufacturing Cycle

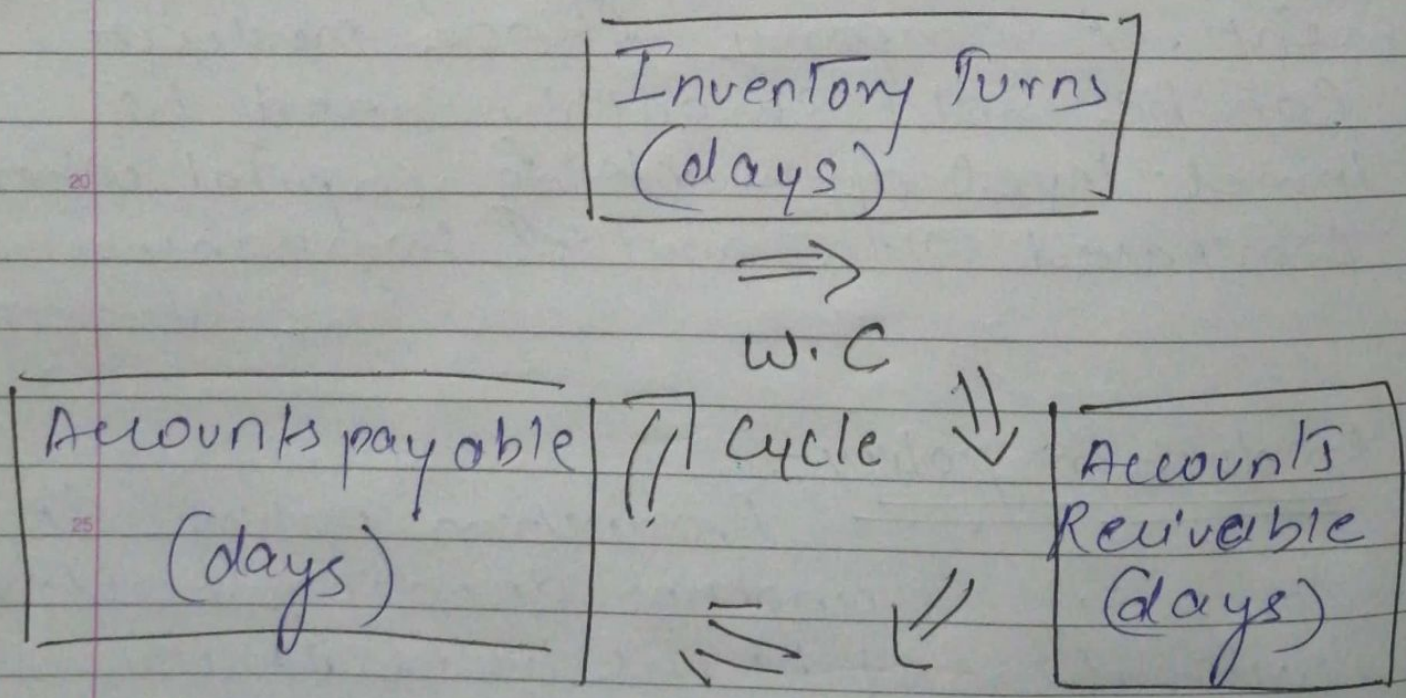
The process of conversion of raw material into finished goods is

termed as manufacturing cycle.
A longer manufacturing cycle would require large amt of working Capital.

Working Capital Cycle

The working Capital Cycle for business is the length of time it takes to convert the total net working Capital (Current assets less Current liabilities) into Cash.

Business typically try to manage this cycle by selling inventory quickly.



Steps of working Capital Cycle :-

1. The company purchase on credits material to manufacture a product.
2. The company sells its inventory in 30 days.
3. The company receive payment from customer for the product sold.