Section - 10

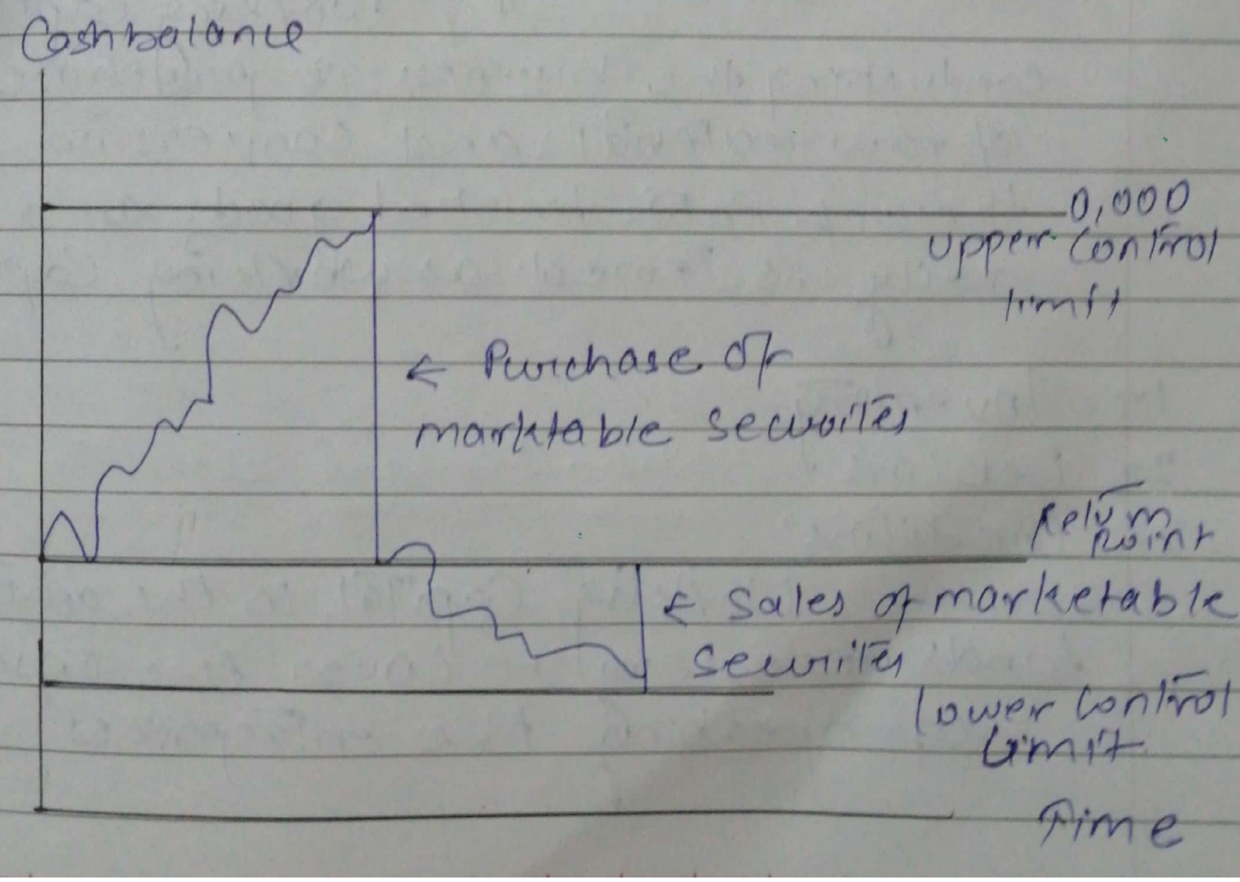
Q - 1

Explain "Miller and Orr" Cash management model and definition of working capital. Explain it's nature also.

Miller - Orr Model →

It is also called stochastic model. It is made by overcoming the limitations of Baumol model and also allows for regular cash flow variation.

This model works on the factor that net cash flow are normally disbursed with the mean of zero and a standard derivation.



In this fig. MO model has two control limits which are upper control limit and lower control and also the return point. If in case the cash flow of the firm change randomly and moves to upper limit than the firm should invest in market securities.

The lower control limit of cash balance is held acc to the mimumum cash.

① Transaction cost (c)
② Int rate (i)
③ Standard Deviation cash flow. (σ)

Definition of working Capital :- Working Capital conducting the business i.e purchase of raw material and conversion thereof into finished goods on a daily is termed as working capital

1 → Inventory
2 → Debtors
3 → Creditors'

Working Capital is the amt of funds necessary to cover the cost of operating the enterprises.

Natūre and Scope of working Capital:

(i) **Short Term needs :-**
working Capital required to procure raw material which after going through a short process is converted into cash. Short period involved in the working capital.

2. **Circular Movement :-**
Working Capital cycle is a continous and recurring process. The Cash is used to acquire asse (n converted into finished goods and Sold out.

3. **Element of permancy :-**
Although w.c requirement of a company is permanent in natūre, there is a flucation in ik demand. This flcutation is wider in comparsion with that of the fixed capital.

4. **Liquidity :-** W.C is more liquid than the fixed asset/Capital. in case of necessary w.c in converitable into Cash with Ease and without loss it time.

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