

## WORKING CAPITAL MANAGEMENT

### MEANING OF WORKING CAPITAL:

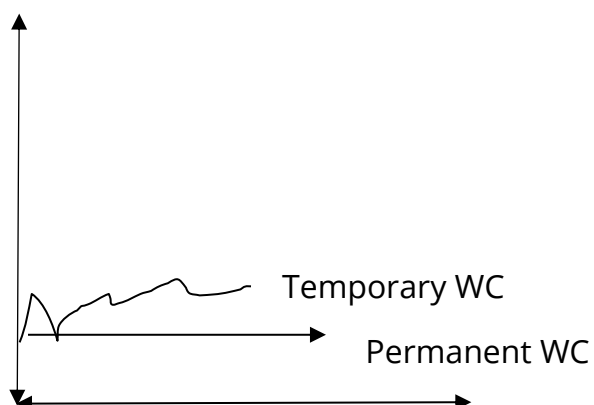
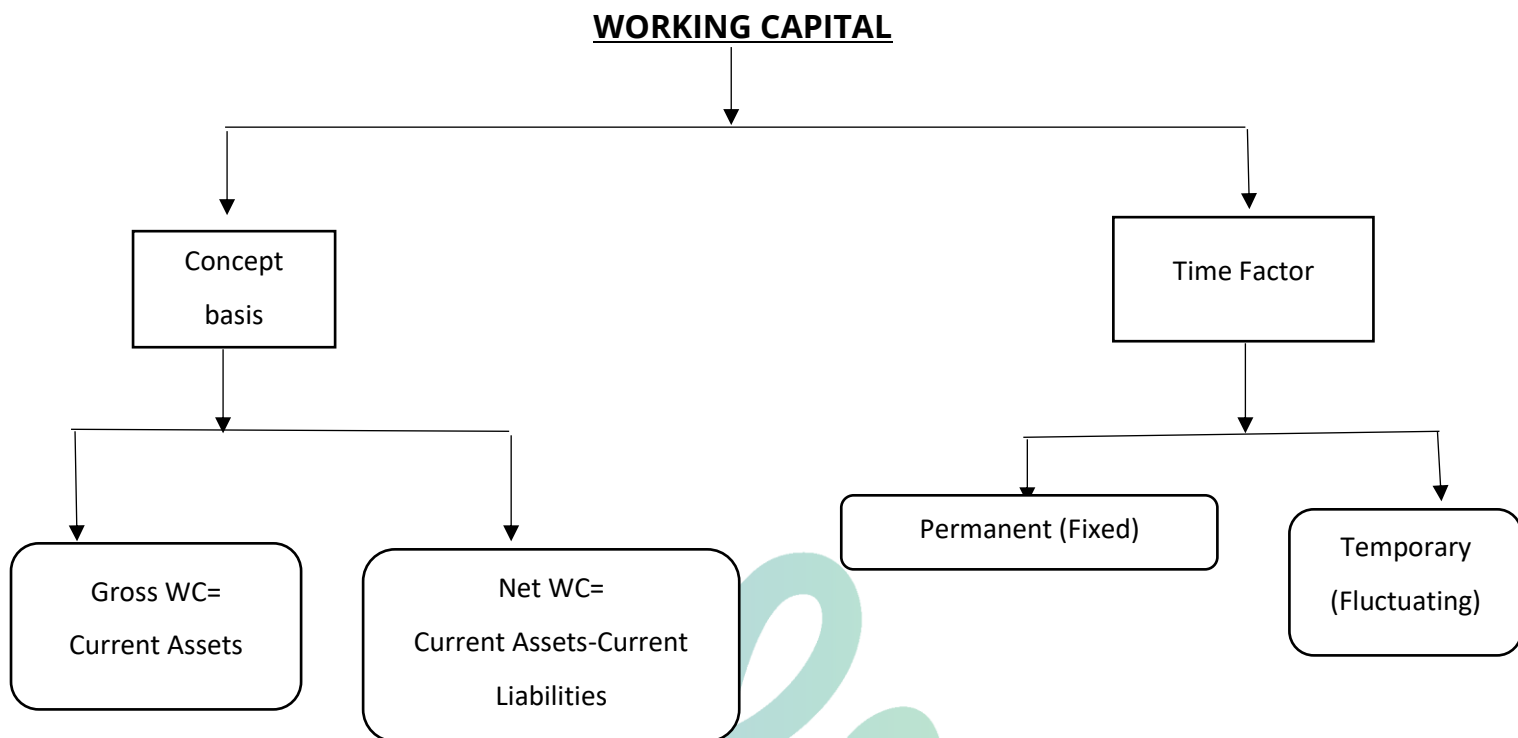
Working Capital = Current Assets --- (minus) Current Liabilities

Current Assets	Current Liabilities
Those Assets which can be converted into cash within an year (Convertibility into cash is the criteria).	Those liabilities which fall due for payment within 1 year (includes Proposed Dividend and Unclaimed Dividend).

### IMPORTANCE OF WORKING CAPITAL:

1. **To use fixed assets profitably:** a machine cannot be used productively without Raw Materials.
2. **Day-to-day operations:** Cash and cash equivalents are important to meet day-to-day expenses.
3. **Short term solvency:** Working capital enables the firm to meet its immediate payment commitments.
4. **Mix of long term source and short term source:** There should be proper balance between investments in long term and short term assets which will improve structural health of organization.
5. **To support Increase in level activity:** Working capital is necessary to support Increase in sales level or activity level. If increase in activity level is not supported by adequate capital base, it will lead to under-capitalization or over-trading.
6. **Liquidity and profitability:** There should be proper balance between liquidity and profitability which are inverse to each other. Higher liquidity, lower profitability and vice versa.

## CLASSIFICATION OF WORKING CAPITAL



PERMANENT WORKING CAPITAL	TEMPORARY WORKING CAPITAL
1. Minimum level of investment required at any point of time	1. Over and above permanent working capital
2. Long term investment	2. Short-term investment
3. fixed, core, hardcore working capital	3. Fluctuating/variable working capital
4. changes in level of activity or sales increase, etc.,	4. changes due to peak season, trade cycle boom

