



SNS College of Technology

Coimbatore - 35



19BAE711 – Working Capital Management

Unit I - Introduction to Working Capital Management



Presented by

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Guest the topic

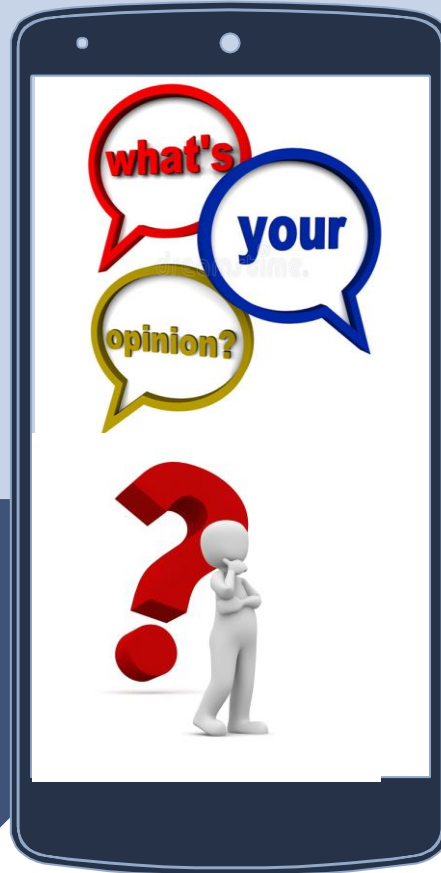




Recall

- Working Capital
- Types of WC





What is Working Capital...?



Operating Cycle

- An Operating Cycle (OC) refers to the days required for a business to receive inventory, sell the inventory, and collect cash from the sale of the inventory.
- This cycle plays a major role in determining the efficiency of a business.





Formula

- The OC formula is as follows:
- Operating Cycle = Inventory Period + Accounts Receivable Period

Where:

- Inventory Period is the amount of time inventory sits in storage until sold.
- Accounts Receivable Period is the time it takes to collect cash from the sale of the inventory.



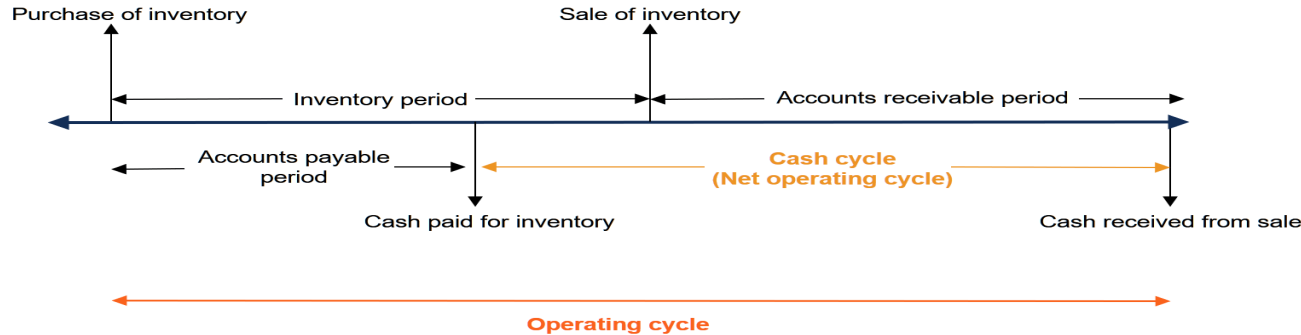
Importance

- The OC offers an insight into a company's operating efficiency.
- A shorter cycle is preferred and indicates a more efficient and successful business.
- A shorter cycle indicates that a company is able to recover its inventory investment quickly and possesses enough cash to meet obligations.
- If a company's OC is long, it can create cash flow problems.



Net OC (Cash Cycle) vs OC

- Operating Cycle: The length of time between the purchase of inventory and the cash collected from the sale of inventory.
- Net Operating Cycle: The length of time between paying for inventory and the cash collected from the sale of inventory.





Assessment

Cash Cycle and Operating Cycle
are not same

True / False

Ans: True





Summary

- Operating Cycle
- Importance
- Formula
- Cash Cycle vs Operating Cycle

SUMMARY





Reference

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- <https://corporatefinanceinstitute.com/resources/accounting/operating-cycle/>
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*Thank
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