



SNS College of Technology

Coimbatore - 35



19BAE711 – Working Capital Management

Unit II - Types of Working Capital

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Design Thinker





Guest the topic





Recall

- WC Policies
- Types of WC Policies
- Components of WC Policies
- Advantages



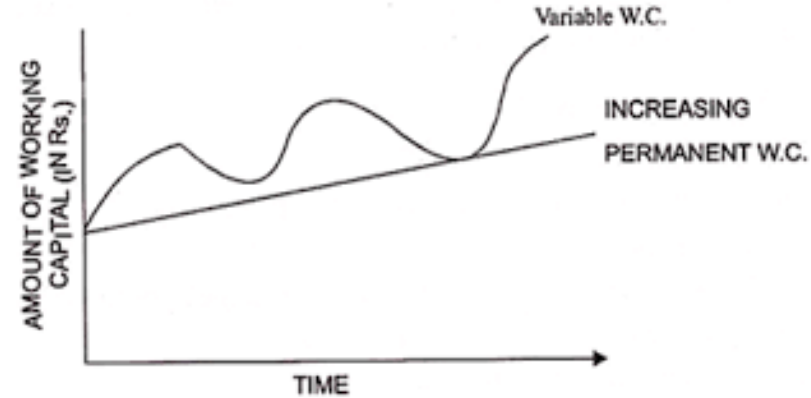


What is Working Capital?



Gross WC

- This type of capital is the amount a company has invested in assets that can quickly convert to cash.
- Assets high in liquidity, such as stocks, could fall under this category.

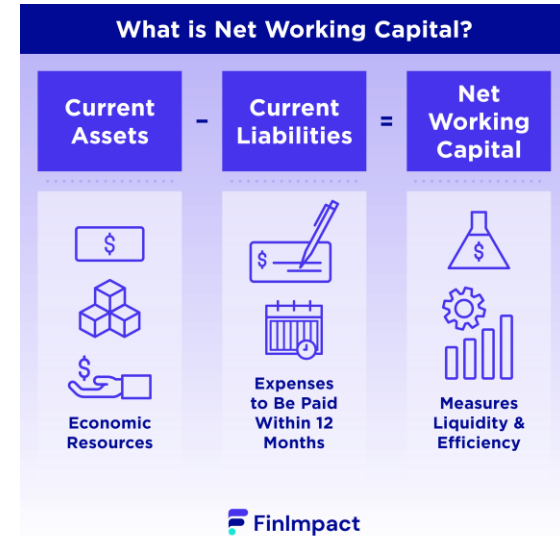




Net WC



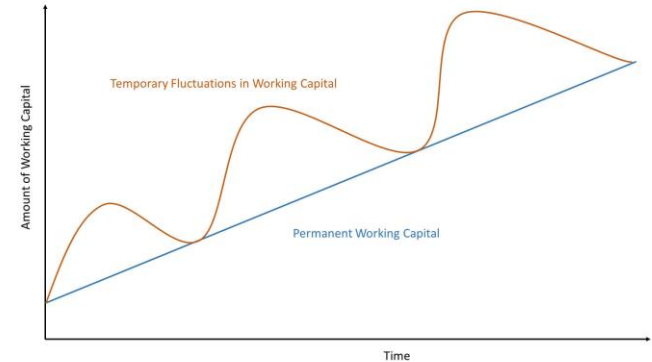
- The difference between current assets and current liabilities, net working capital can be positive or negative and shows a company's liquidity.
- When you refer to working capital, this refers to a company's net working capital and indicates if it can meet its short-term financial obligations.





Permanent WC

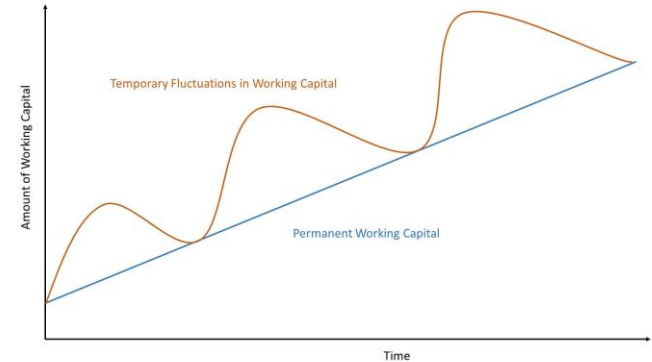
- Also known as “fixed working capital,” this is the minimum amount of funds that must be in cash or current assets, required to cover all current liabilities.
- The amount of fixed capital a business requires depends on the size and growth of that business. The bigger the business, the more fixed or permanent working capital will be needed.





Temporary WC

- Also known as “variable, fluctuating, or cyclical working capital.”
- It is the difference between net working capital and permanent working capital.





Regular WC



- This is the least amount of capital required to meet current working expenses under normal conditions.
- Some examples of this capital include salary and wage payments, materials and supplies, and overhead costs.



Reverse Margin WC

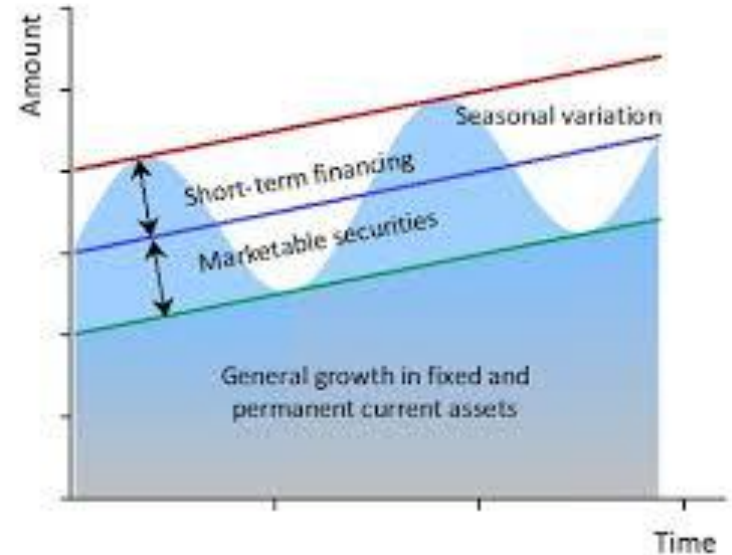
- Think of this type of working capital like a “safety cushion”.
- This is the amount of “rainy day” funds set aside for unforeseen circumstances such as natural disasters, strikes, layoffs, or inflation.





Seasonal WC

- Related to the seasonal demand of products, this kind of working capital includes the additional amount a business needs to operate during the peak season.
- It can also be considered a variable type of working capital.





Special WC

- Included under temporary working capital, this is for unforeseen or exceptional circumstances such as accidents, marketing or advertising campaigns, or new product development endeavours.
- This is also another type of variable working capital.



Assessment

Strikes and Layoff is the example for Reserve Margin working capital

True / False

Ans: True





Summary

SUMMARY



- Types of Working Capital



Reference

- <https://gocardless.com/guides/posts/the-8-types-of-working-capital/>
- <https://razorpay.com/learn/business-banking/types-of-working-capital/>
- <https://www.indiainfoline.com/knowledge-center/business-loan/what-is-working-capital-management>



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