



SNS College of Technology

Coimbatore - 35



19BAE711 – Working Capital Management

Unit II - Types of Working Capital

Presented by

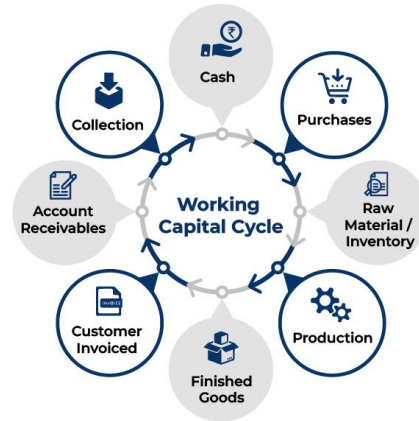
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Guest the topic

Working Capital

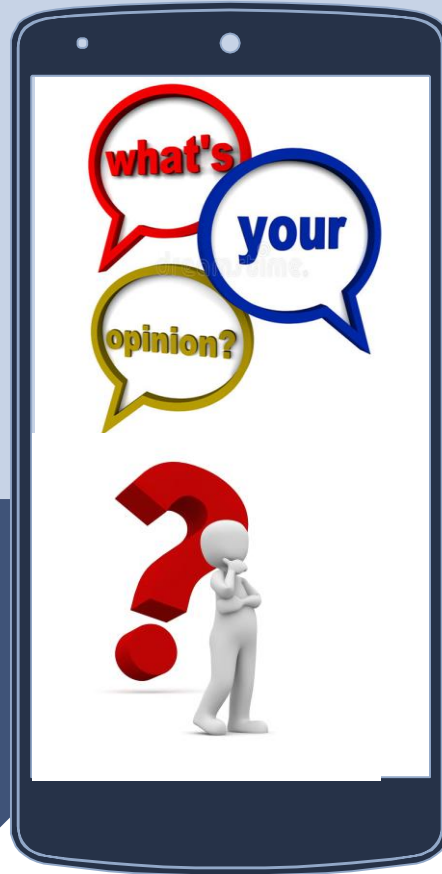




Recall

- **Tips for effective Working Capital**
- *Manage Procurement and Inventory Effectively*
- *Make On-Time Payments to Vendors*
- *Improve Your Accounts Receivable Process*
- *Manage Accounts Payable Properly*



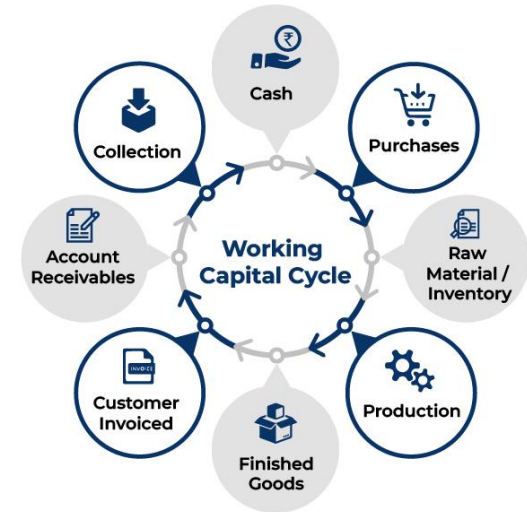


What is Operating Cycle?



Operating Cycle

- Operating cycle of working capital refers to the total number of working days that a business takes to buy inventory, sell it off, and then collect the proceedings from the sale.
- If you wish to determine how efficiently a business is running, it's the operating cycle of working capital you should be checking.





Short Operating Cycle

- It means that a business can quickly recover its investment in inventory. Moreover, it has enough liquidity to meet its obligations.
- On the contrary, a long operating cycle creates a negative impact on the cash flow of a business. The longer the operating cycle the greater the level of resources 'tied up' in working capital.



Steps in the operating cycle of WC





Components

- Accounts receivable
- Inventory
- Accounts payable





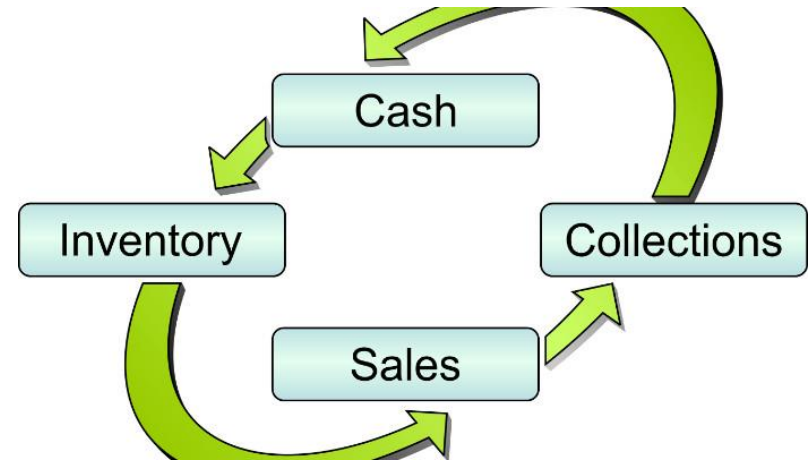
Calculation

- Operating Cycle = (Inventory Period + Accounts Receivable Period)
- Inventory Period = $365 \div (\text{Cost of Goods Sold} / \text{Average Inventory})$
- Operating Cycle = $365 \div (\text{Cost of Goods Sold} / \text{Average Inventory}) + 365 \div (\text{Credits Sales} / \text{Average Accounts Receivable})$



Significance

- Helps to measure a company's financial health
- Effect on profitability
- Impact on a company's relationship with its creditors





Positive vs. Negative

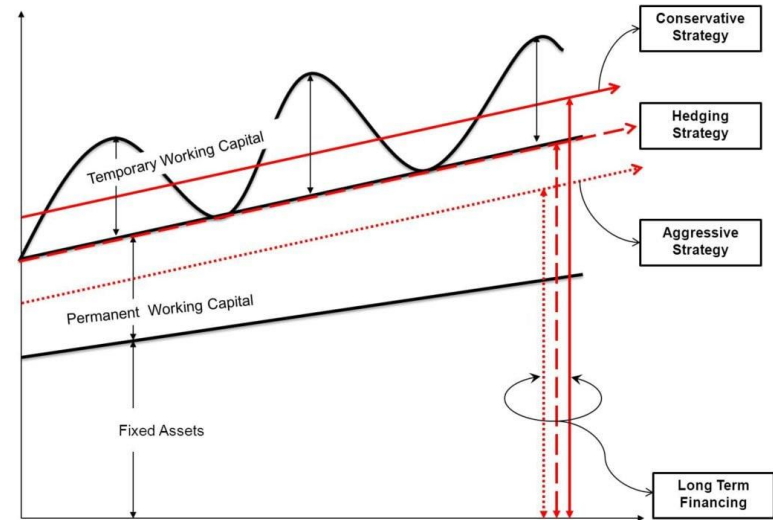


- A positive operating cycle indicates that a business will take time to sell inventory, collect receivables, and pay suppliers, leading to a longer operating cycle. A positive cycle may signal a need for efficient inventory management.
- A negative operating cycle suggests that a business can quickly turn its current assets into cash, resulting in a shorter cycle. It indicates swift cash conversion, potentially enhancing liquidity.



Strategies for managing and improving

- Don't use working capital to purchase fixed assets
- Cut down on unnecessary expenses
- Reduce bad debt
- Shorten operating cycle





How to shorten ???



- Collect payments as soon as you can
- Handle inventory with care
- Pay bills on time



Assessment

Shorten operating cycle is the strategy for improving operating cycle of WC

True / False

Ans: True





Summary

- Operating Cycle
- Steps in the operating cycle of WC
- Components
- Significance
- Strategies for managing and improving
- How to shorten ???

SUMMARY





Reference

- <https://razorpay.com/learn/operating-cycle-of-working-capital/>
- <https://corporatefinanceinstitute.com/resources/accounting/working-capital-cycle/>
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