



SNS College of Technology

Coimbatore - 35



19BAE711 – Working Capital Management

Unit II - Types of Working Capital

Presented by

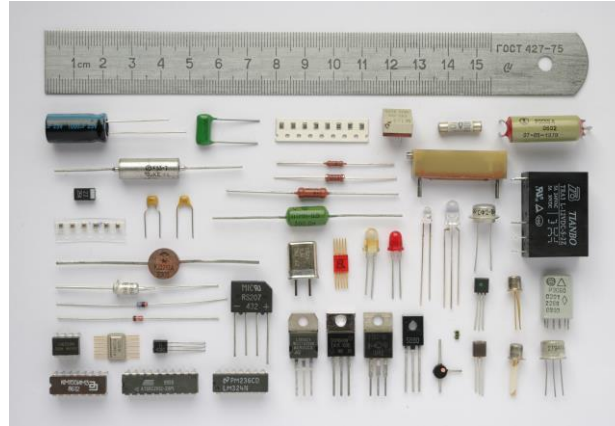
Dr.V.Prabakaran
Design Thinker





Guest the topic

Working Capital

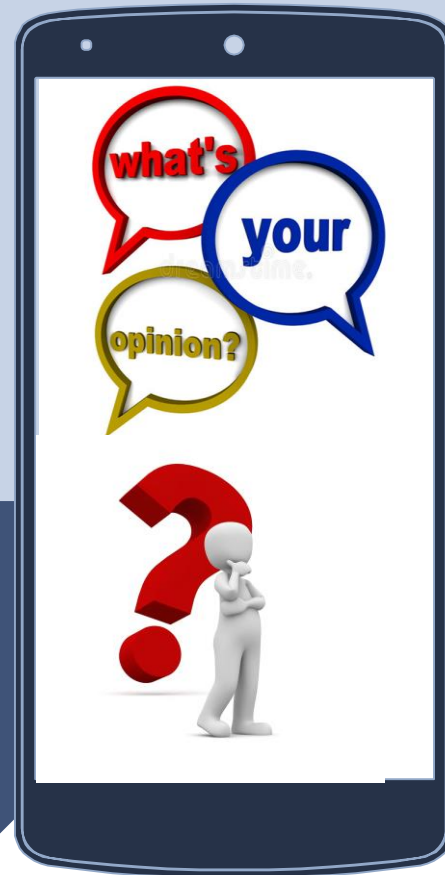




Recall

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





What is Working Capital?



Working Capital



- Working capital is a crucial indicator of a company's short-term financial health.
- It provides insights into a business's ability to meet its immediate obligations.
- Comprised of various components, working capital is a key metric that requires careful management for sustained success.



Components of WC

- Cash and cash equivalents
- Accounts receivable
- Inventory
- Accounts payable

Essential components of working capital management





Cash and cash equivalents

- It refers to the readily available funds held by a company.
- For example, let's consider a retail business. The cash in the register, the money in the company's bank account, and short-term investments such as highly liquid stocks or government bonds all fall under this component.
- Having cash on hand allows the business to cover daily expenses, pay employees, and handle unexpected costs efficiently.

Cash Equivalents





Accounts receivable

- Accounts receivable represents the amount of money owed to a company by its customers for products or services already delivered.
- Let's say a manufacturing company sells its products on credit terms to its clients.
- The outstanding invoices that are yet to be paid by the customers make up the accounts receivable component.
- Efficient management of accounts receivable involves timely invoicing, diligent follow-ups, and implementing a systematic collection process.





Inventory

- Inventory comprises the value of goods held by a company that are ready to be sold. For instance, consider a grocery store.
- The products stocked on the shelves, including food items, household supplies, and other merchandise, constitute the inventory.
- Proper inventory management is crucial to avoid overstocking or stockouts.
- It involves monitoring demand, optimizing procurement, and implementing effective inventory control systems.





Accounts payable

- Accounts payable denotes the amount a company owes to its suppliers for goods or services received.
- Let's imagine a restaurant that purchases ingredients from various suppliers.
- The unpaid bills for these supplies make up the accounts payable.
- Managing accounts payable involves negotiating favorable payment terms with suppliers, ensuring timely payments, and maintaining strong relationships to secure discounts and favorable credit terms.





Optimizing WC Management



- Regularly Track Working Capital
- Maintain A Healthy Cash Flow
- Streamline Accounts Receivable
- Optimize Inventory Management
- Negotiate Favorable Terms With Suppliers





Assessment

Regularly Track Working Capital
is one of the best way to optimize
the WCM

True / False

Ans: True





Summary

- Components of Working Capital
- *Cash and cash equivalents*
- *Accounts receivable*
- *Inventory*
- *Accounts payable*
- Optimizing Working Capital Management

SUMMARY





Reference

- <https://www.oxyzo.in/blogs/components-of-working-capital-comprehensive-guide-for-financial-management/64610>
- <https://www.investopedia.com/terms/w/workingcapital.asp>
- <https://www.ashconversions.com/blog/learn/working-capital-components/>



Reach Us



SNSINSTITUTIONS



SNSINSTITUTIONS



SNSINSTITUTIONS



SNSINSTITUTIONS



SNSINSTITUTIONS

*Thank
you*