



SNS College of Technology

Coimbatore - 35



19BAE711 – Working Capital Management

Unit II - Types of Working Capital

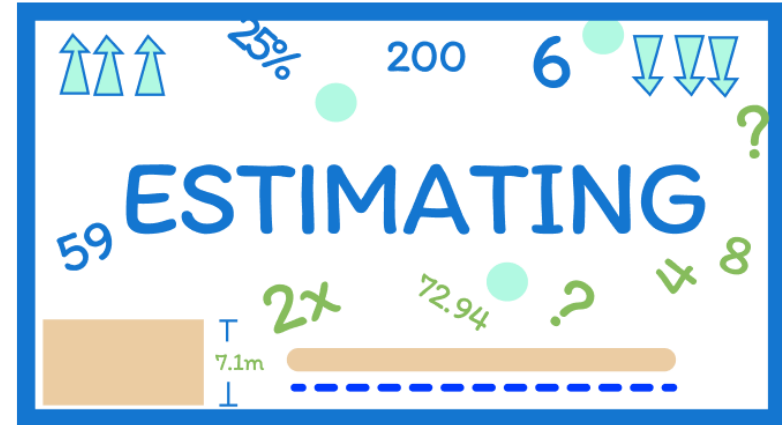


Presented by

Dr.V.Prabakaran
Design Thinker



Guest the topic

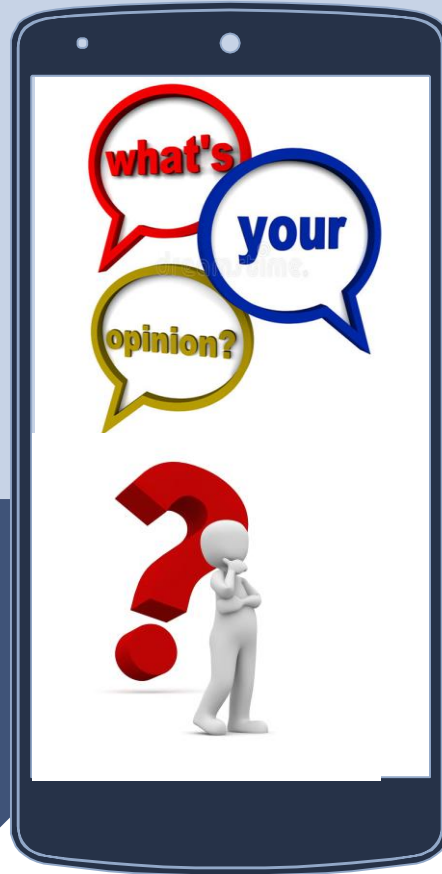




Recall

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





What is Estimation?



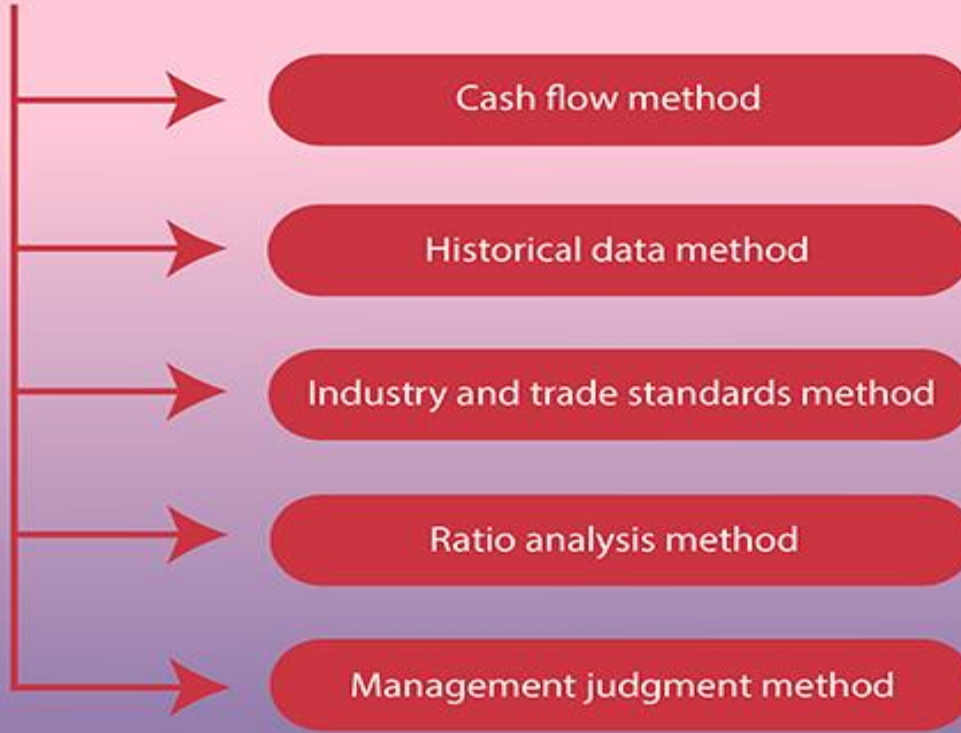
Purpose of Estimation

- Develop a business plan
- Secure financing
- Monitor cash flow
- Make strategic decisions





Methods of Estimating Working Capital Requirements





Cash Flow Method

- With this method, you forecast your company's future cash flow and use that information to estimate the amount of working capital you will need.
- The cash flow method simply projects future cash inflows and outflows to determine how much working capital will be required.
- This can be done using financial statements, such as income statements and balance sheets. This will give you a good idea of how much working capital you will need in the future.





Historical data method

- This method uses information from the company's past to estimate future working capital requirements.
- This approach is based on the premise that a company's future working capital needs will be similar to its past needs.
- To calculate working capital using this method, you first need to determine your company's average cash conversion cycle (CCC) over time.
- The CCC is the number of days it takes for a company to convert raw materials into cash.
- Once you have determined the CCC, you can estimate your company's future working capital needs by multiplying the CCC by your projected sales.





Industry and trade standards method



- This approach can be used to get a general idea of the minimum amount of working capital required for a specific industry or trade.
- To use this method, you will need to find industry-specific data on the average level of inventory, accounts receivable, and accounts payable.
- This information can be found in surveys or reports from trade associations or other similar organisations.
- Once you have gathered this data, you can estimate your company's working capital requirements by applying these averages to sales volume.
- While this approach does not provide a precise estimate, it can help get a general idea of the minimum amount of working capital that may be required for your business.



Ratio Analysis Method

- With the ratio analysis method, businesses look at their financial statements and calculate some key financial ratios.
- The ratios used in the ratio analysis method are the current ratio, quick ratio, and inventory turnover.
- Even if you own a small business, such financial ratios help to give a snapshot of how well the business is doing and how much working capital is needed.





Management judgment method

- This method relies on the knowledge and experience of management to come up with an estimate.
- They will then look at any changes that have happened within the company or industry which could impact future working capital requirements.
- Management will come up with an estimate for the company's future working capital needs.
- This method is often used because it is quick and easy and does not require sophisticated financial analysis.
- Less accurate than other methods



Assessment

Management judgment method is less accurate methods of all.

True / False

Ans: True





Summary

- Purpose of Estimation
- Methods of Estimation
 - *Cash Flow Method*
 - *Historical Data Method*
 - *Industry and Trade Standards Method*
 - *Ratio Analysis Method*
 - *Management Judgment Method*

SUMMARY





Reference

- <https://www.whizconsulting.net/uk/blog/working-capital-requirements-business-needs-to-know/>
- <https://www.jkshahclasses.com/announcement/Working-Capital.pdf>
- <https://www.yourarticlelibrary.com/accounting/working-capital-management/estimate-of-working-capital/estimating-working-capital-requirement-top-5-methods-financial-analysis/68099>



Reach Us



SNSINSTITUTIONS



SNSINSTITUTIONS



SNSINSTITUTIONS



SNSINSTITUTIONS



SNSINSTITUTIONS

*Thank
you*