



SNS COLLEGE OF TECHNOLOGY



(An Autonomous Institution)

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COIMBATORE-641 035, TAMIL NADU

19BAE711 – Working Capital Management

Unit I – Introduction to Working Capital Management

2 MARKS

1. What is the meaning of working capital?

Working capital refers to the capital that is required for day-to-day working in a business firm such as for purchasing raw materials ,for meeting day-to-day expenditures on salaries ,wages, rents, rates, advertising etc .The term working capital is also known as revolving or circulating capital or fluctuating capital or short term capital.

2. Define working capital.

According to shubin, “working capital is the amount of funds necessary to cover the cost of operating the enterprise”.

3. What is meant by gross working capital?

It refers to the firm’s investment in current assets .current assets are the assets that are to be converted into cash within an accounting year and include cash in hand, cash at bank, debtors , short term securities , bills receivables , stock and prepaid expenses.

Gross working capital= total current assets.

4. What is net working capital?

Net working capital is the aggregate amount of all current assets and current liabilities. It is used to measure the short-term liquidity of a business, and can also be used to obtain a general impression of the ability of company management to utilize assets in an efficient manner.

Net working capital= current assets – current liabilities.

5. What is operating cycle?

The operating cycle is the average period of time required for a business to make an initial outlay of cash to produce goods, sell the goods, and receive cash from customers in exchange for the goods. This is useful for estimating the amount of working capital that a company will need in order to maintain or grow its business.

6. What is working capital management?

Working capital management refers to a company's managerial accounting strategy designed to monitor and utilize the two components of working capital, current assets and current liabilities, to ensure the most financially efficient operation of the company. The primary purpose of working capital management is to make sure the company always maintains sufficient cash flow to meet its short-term operating costs and short-term debt obligations.

7. What is meant by temporary working capital?

The temporary or varying working capital varies with the volume of operations. It fluctuates with the scale of operations. This is the additional working capital required from time to time over and above the permanent or fixed working capital. During seasons, more production/sales take place resulting in larger working capital needs. The reverse is true during off-seasons. As seasons vary, temporary working capital requirement moves up and down. Temporary working capital can be financed through short term funds like current liabilities.

8. What is meant by permanent working capital?

Permanent working capital refers to the minimum amount of all current assets that is required at all times to ensure a minimum level of uninterrupted business operations. Some minimum amount of raw materials, work-in-progress, bank balance, finished goods etc., a business has to carry all the time irrespective of the level of manufacturing or marketing operations. This level of working capital is referred to as core working capital or core current assets. But the level of core current assets is not a constant sum at all the times. For a growing business the permanent working capital will be rising, for a declining business it will be decreasing and for a stable business it will almost remain the same with few variations.

16 Marks

1. Explain the need and importance of working capital?
2. Explain the concepts of working capital?
3. Describe the advantages of adequate working capital?
4. Describe the disadvantages of inadequate working capital?
5. Explain the factors determining working capital?
6. Explain are the types of working capital?