



SNS COLLEGE OF TECHNOLOGY



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COIMBATORE-641 035, TAMIL NADU

19BAE711 – Working Capital Management

Unit II – Types of Working Capital & Working Capital Estimation

2 MARKS

1. Define permanent working capital.

Permanent working capital means the part of working capital which is permanently locked up in the current assets to carry out the business smoothly. The minimum amount of current assets which is required to conduct the business smoothly during the year is called permanent working capital.

2. Define temporary working capital.

Also known as variable working capital, it is the excess amount a business needs over and above its permanent counterpart. It is related to the volume of production in a business. Since sales and production fluctuate throughout the year, working capital requirements may also vary.

3. Define working capital financing.

Working Capital Financing is when a business borrows money to cover day-to-day operations and payroll rather than purchasing equipment or investment.

4. Define operating cycle.

The length of time between the purchase of inventory and the cash collected from the sale of inventory. Net Operating Cycle: The length of time between paying for inventory and the cash collected from the sale of inventory.

5. Differentiate permanent vs temporary working capital

The permanent working capital is a fixed amount of working capital that is kept fixed for the long-term needs of the business. The temporary working capital, on the other hand, is meant for day-to-day, short-term expenses.

6. What is estimation with respect to working capital.

Working capital estimates are derived from the array of assets and liabilities on a corporate balance sheet. By only looking at immediate debts and offsetting them with the most liquid of assets, a company can better understand what sort of liquidity it has in the near future.

16 Marks

1. Explain about working capital monitoring and financing.
2. Explain the estimation procedure for working capital.
3. Explain the different components of working capital.
4. Explain the requirements of estimation of working capital.