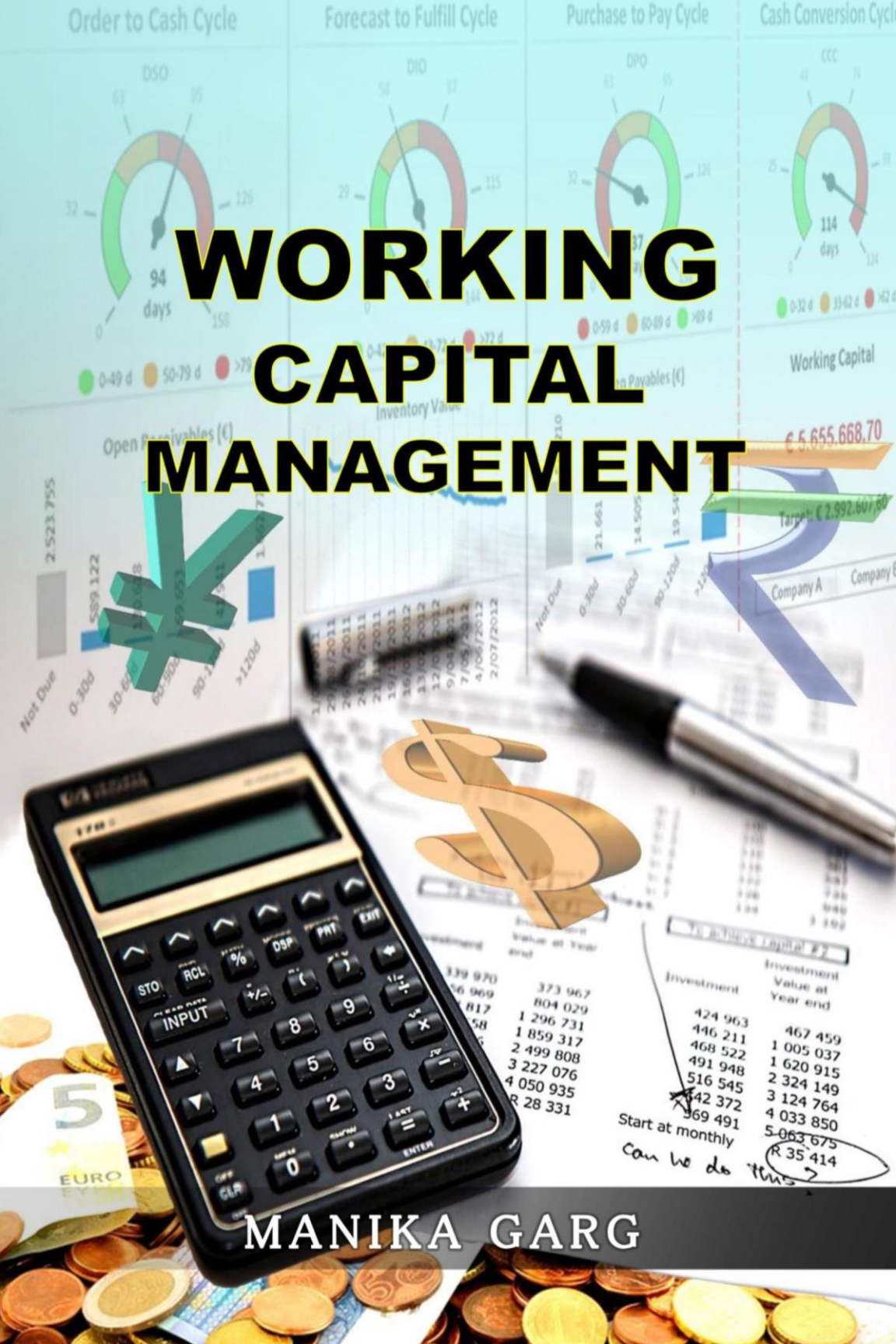


WORKING CAPITAL MANAGEMENT



MANIKA GARG

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About The Author

The Author Manika Garg is presently working as a professor in Yamuna Nagar. She has certified as Retail Trainer/Faculty from Retailers Association's Skill Council of India. She has completed her B.com and MBA from Kurukshetra University. She is one of the University Topper and has published many research papers in National and International journals. She has written a book entitled "Portfolio Management" and also Participated & won Prizes in different competitions like essay writing competition, Quiz and SKIT etc. Her major area of interest is Working Capital Management, Financial Derivatives, Retailing and Managerial Economics.

About The Book

Working Capital Management is the process of planning and controlling the level and mix of the current assets of the firm as well as financing these assets. Thus, Working Capital Management is an essential part of the economic and non economic activities which leads to decide the efficient procurement and utilization of finance with profitable manner.

This book reflects the theoretical and practical forces that have brought about dramatic changes in the management of short-term funds.

In the olden days the subject Working Capital Management was a part of accountancy with the traditional approaches. Now a days, It has been enlarged with innovative and multi dimensional functions in the field of business with the effect of industrialization. Working Capital Management has become a vital part of the business concern and they are concentrating more in the field of Financial Management. Working Capital Management also developed as corporate finance, business finance, financial economics, financial mathematics and financial engineering. Understanding the basic concept about the Working Capital management becomes an essential part for the students of economics, commerce and management. This book provides detailed information about the working capital and finance related area with simple language and the concepts are explained with easy examples. This book is also prepared based on the B.Com, B.B.A., B.B.M., M.Com, and M.B.A. syllabus of various universities for the benefits of the students.

- **Manika Garg**

Acknowledgement

Success of efforts depends upon solely on the blessings of 'Almighty' and our elders who groomed us time to time.

Just as the birds decorate the sky without ever asking for gratitude,
Just as the sky decorates their wings without ever receiving acknowledgement,

You all decorate my life without ever requiring so much as a nod of appreciation.

For that , THANK YOU

I, Manika Garg, express my deep sense of gratitude to my father Sh. Ravinder Garg and my Mother Smt. Sunita Garg without their support, trust and motivation, I could not work. My Gratitude would not be completed ,if I do not thank my Sister Ms. Shilpi who always inspired me to write and work. I cannot end my expressions if I do not mention the name of my sweet brother Shivam who worked with me day and night. A special thanks to Akash Gupta who really helped and supported me a lot.

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Preface

Financial managers devotes a considerable amount of attention to the management of working capital. Net working capital (current assets less current liabilities) provides an accurate assessment of the liquidity position of the firm. An examination of the components of working capital is helpful because of the preoccupation of management with the proper combination of assets and acquired funds.

The text is based on the course being taught by the faculty of Management Studies. Keeping in view the requirements of the students of MBA/ COMMERCE/ BBA/ BUSINESS ECONOMICS at various universities/ Institutes, Chartered Accountants, Company Secretaries and other professional courses. This edition consists of ten chapters like Introduction to working capital management, cash management, receivable management, inventory management, working capital programming etc. since this book is synthesis, I am indebted to all writers who have contributed to the area of working capital management. I hope that I have interpreted their view correctly. I have benefitted greatly from feedback from students and colleagues. I would like to thanks to the members of EDUCREATION PUBLISHING for their support and guidance.

Content List

S.no	Chapter	Page
1.	Working Capital Management	01
2	Management of Cash-I	36
3	Management of Cash-II	66
4	Receivables Management	91
5	Inventory Management	120
6	Sources Of Financing	150
7	Time Value of Money	178
8	Programming of working capital Management	194
9	Cash Flow Forecasting & Budgeting	216
10	Managing Corporate Liquidity	238
11	Reference	271

Chapter 1- Working Capital Management

- **Introduction to Working Capital**
- **Meaning of Working Capital**
- **Definitions of Working Capital**
- **Concepts of Working Capital**
- **Constituents of Working Capital**
- **Kinds of Working Capital**
- **Determinants of Working Capital**
- **Principles of Working Capital Finance**
- **Adequacy of Working Capital**
- **Dangers of Inadequate Working Capital**
- **Analysis of Working Capital**
- **Measurement of Working Capital**
- **Determining the Finance Mix**
 - Hedging or matching approach
 - Conservative approach
 - Aggressive approach

INTRODUCTION

Working Capital is considered as the lifeblood and nerve centre of any business (Khan and Jain) in the present day modern industrial world the term Working Capital refers to the short term funds required for financing the entire duration of the operating cycle of a business known as “Accounting Year”.

Thus, it is the process of planning and controlling the level and mix of the current assets of the firm as well as financing these assets. Working Capital Management requires financial managers to decide what qualities of cash, other liquid assets, account receivables and inventories the firm will hold at any point in time. Financing choices include the mix of current assets as well as long-term liabilities.

Organization requires financing for two purposes:

i) For their establishment and ii) to carry out their day-to-day operations. So, Working capital is that part of a business capital that is required for the financing of current or short-term assets.

The structure of working capital is involved with the issues that come up while managing current assets, current liabilities and the inter-relationships which exist between them.

Working capital is an important tool for growth and profitability for corporations. If the levels of working capital are not enough, it could lead to shortages and problems with the day-to-day operations. Working capital is also called net working capital and is defined as current assets less current liabilities (Hillier).

Net working capital = Current assets – current liabilities

Both components of the working capital formula above can be found on the balance sheet. **Current assets** can be found on the

Working Capital Management

assets side of the balance sheet and are those assets that generate cash within one year. Current assets are normally divided into cash and cash equivalents, short-term investments, trade and other receivables, prepaid expenses, inventories and work-in-progress.

Current liabilities can be found on the liability side of the balance sheet and are obligations which have to be met within one year. Current liabilities are divided in trade payables, short-term debt and accrued liabilities.

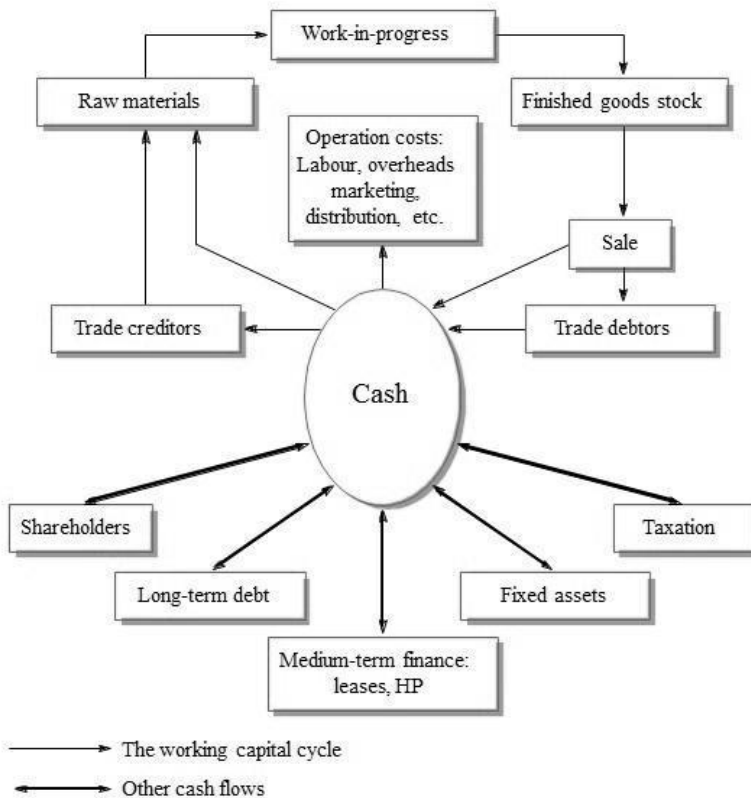


Figure 1.1 A Typical working capital cycle

To illustrate the working capital of a firm, the working capital cycle will now be discussed and can be seen in figure 1.1. The



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