

Working Capital	
Sr. No.	
1.0	Introduction:
1.1	Meaning:
	Working capital is the life blood of an organization. It is the funds needed for an industry to run its day-to-day business.
1.2	Types:
	The working capital is of two types. i) Gross ii) Net
	Gross working capital is the total amount invested or required to acquire current assets like stock, debtors, bank balance etc.
	Net working capital is the difference between current assets and current liabilities.
1.3	Importance:
❖	Solvency of business
❖	Goodwill
❖	Easy loans
❖	Cash discounts
❖	Regular supply of material
❖	Regular payment of salaries, wages and day-to-day commitments.
❖	Exploitation of favorable market conditions.
❖	Ability to face crisis
❖	High morale
1.4	Working Capital cycle:
	Working capital is generated by some cycle, which passes through various stages in a business.
❖	Cash ---→ Purchases ---→ Processing ----→ finished goods -----→ Sales -----→ Debtors -----→ Cash
❖	Raw material ---→ Semi-finished goods -----→ finished goods (inventory) -----→ Debtors (Sales)
1.5	Factors determining the quantum of working capital:
➤	Nature of business
➤	Size of Business/ scale of operations
➤	Production policy
➤	Length of production cycle
➤	Seasonal variations
➤	Stock turnover
➤	Credit policy
2.0	Methods of assessing working capital:
	The Tondon committee has suggested three methods for working out working capital limits.

2.1	1 st method:
	Total Current Assets
	Less Current Liabilities
	Working Capital Gap (WCG)
	Less 25 % of WCG
	Maximum permissible Bank Finance (MPBF) 75% of WCG
	Excess borrowings = Present borrowings less MPBF
2.2	2 nd Method:
	Total Current Assets
	Less 25 % of current assets (Promoter's contribution)
	Balance
	Less Current Liabilities
	MPBF
	Excess borrowings = Present borrowings less MPBF
3.0	Management of Receivables:
	Factors affecting the size of receivables:
3.1	The type of Product
3.2	The type of Business
3.3	The terms of Trade
3.4	Working capital availability
3.5	Market segment
4.0	Turnover ratios:
4.1	Inventory turnover ratio = average inventory x 365 divided by material cost
4.2	Debtors turnover ratio = average debtors x 365 divided by Sales
4.3	Creditors turnover ratio = average creditors x 365 divided by credit purchases
5.0	Nayak Commitee Recommendations:
5.1	Working capital assistance to all units would be computed on the basis of 20% of the projected annual turnover and enjoying aggregate fund based working capital limit up to Rs.1 crore.
5.2	SSI unit is required to bring 5% of their annual turnover as margin money.
6.0	Chore Commitee Recommendations:
6.1	All advances should be placed under 2-nd method of Tondon commitee.
6.2	To sanction separate limit for normal non-peak level and for peak level for borrowers having WC limit of Rs10 lacs and above.
6.3	Ad hoc limit to be given by way of demand loan.
6.4	Book-debt limit be converted into Bill limit.
6.5	Borrowers enjoying WC limit of Rs.10 lacs and above have to submit QIS, failing which penal interest will be charged.