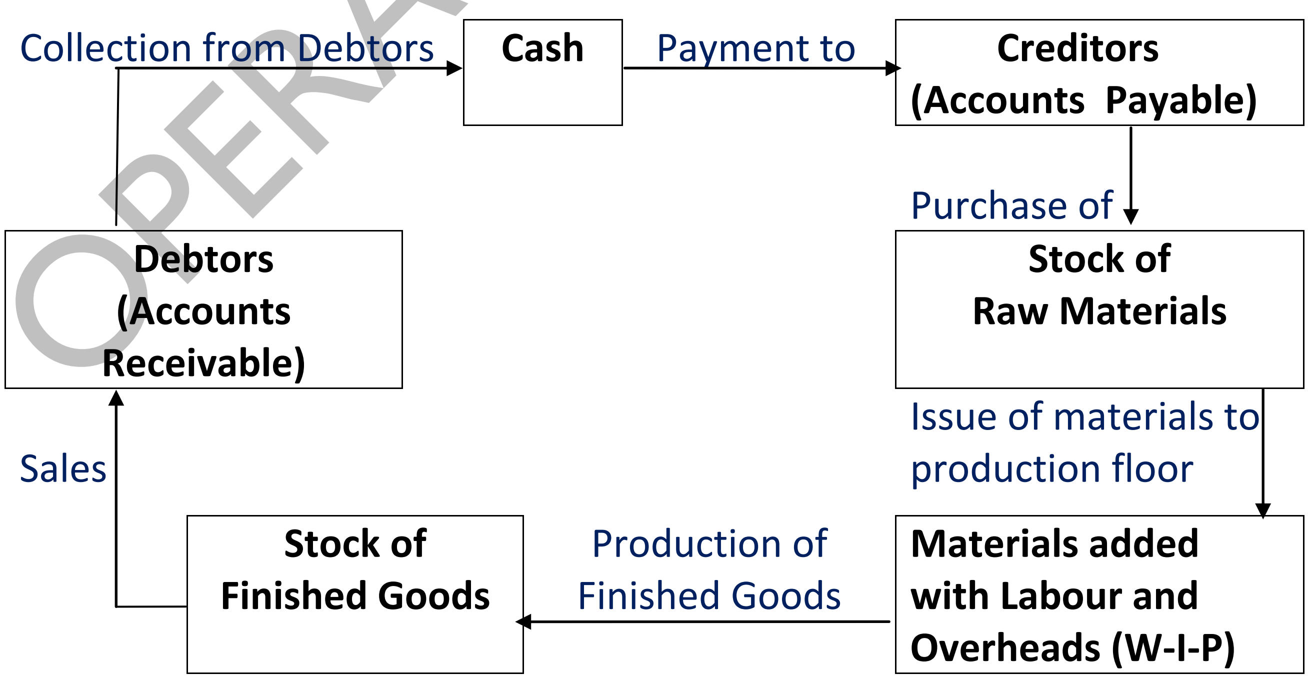
OPERATING CYCLE OR WORKING CAPITAL CYCLE

Operating Cycle or Working Capital Cycle is very important to determine working capital requirement of any concern. *It may be defined as the period that a business enterprise takes in converting cash back to cash. It is the time duration that starts from procurement of raw materials and ends with the realization of cash through sales.* Suppose, a company has a certain amount of cash which is needed to purchase raw materials. Some materials will be available on credit but, cash is required for labour cost and other overhead expenses. These three combined together is required to complete the production process. After the production process is complete finished products are sold for cash or credit. When cash is realized from debtors, working capital is restored to its original form and the cycle of working capital is completed. Cash realized from debtors is again used to purchase raw materials, work-in-progress, finished goods, debtors and finally into liquid cash again.

- **Operating Cycle of a Manufacturing Concern. (Assuming all purchases and sales are on credit)**



OPERATING CYCLE

September 19, 2008