

- **Gross Working Capital** refers to the firm's investment in current assets.
- **Net Working Capital** means the difference between current assets and current liabilities, and therefore, represents that position of current assets which the firm has to finance either from long-term funds or bank borrowings.
- **Operating Cycle** is defined as the time duration which the firm requires to manufacture and sell the product and collect cash. Thus operating cycle refers to the acquisition of resources, conversion of raw materials into work-in-process into finished goods, conversion of finished goods into sales and collection of sales. Larger is the operating cycle, larger will be the investment in current assets. In practice, firms are acquire resources on credit. To that extent, firm's need to raise working finance is reduced.
- **Net Operating Cycle** is used for the difference between operating cycle (or gross operating cycle) and the payment deferral period (or the period for which creditors remain outstanding).

- **The Manufacturing Cycle** is conversion of raw material into work-in-process into finished goods, is a component of operating cycle, and therefore, it is a major determinant of working capital requirement. Manufacturing cycle depends on the firm's choice of technology and production policy.
- **Credit Policy** of the firm is another factor which influences the working capital requirement. It depends on the nature and norms of business, competition and the firm's desire to use it as a marketing tool.
- **Investment in Current Assets** involves a trade-off between risk and return. When the firm invests more in current assets it reduces the risk of illiquidity, but loses in terms of profitability since the opportunity of earning from the excess investment in current assets is lost. The firm therefore is required to strike a right balance.
- **Financing of Current Assets** also involves a trade-off between risk and return. A firm can choose from short- or long-term sources of finance. If the firm uses more of short-term funds for financing both current and fixed assets, its financing policy is considered aggressive and risky. Its financing policy will be considered conservative if it makes relatively more use long term funds in

financing its assets. A balanced approach is to finance permanent current assets by long-term sources and 'temporary' current assets by short-term sources of finance. Theoretically, short-term debt is considered to be risky and costly to finance permanent current assets.