Working Capital Management

Working Capital is the investment of a firm in Current assets, whereas Net working Capital is the difference between Current Assets and Current Liabilities.

i.e., $\boxed{\text{Net Working Capital} = \text{Current Assets} - \text{Current Liabilities}}$

Now. Let us discuss how to calculate the following periods useful in calculation of Working capital.

1. Raw material storage period =R = $\dfrac{\text{Average stock of Raw material}}{\text{Annual Consumption of Raw material}} \times 365$

   Where Consumption of Raw material = Opening stock+ Purchases – Closing Stock

2. Work-in Progress (WIP) Conversion Period=W= $\dfrac{\text{Average stock of WIP}}{\text{Annual Cost of Production}} \times 365$

3. Finished stock storage period =F= $\dfrac{\text{Average stock of Finished goods}}{\text{Cost of Goods sold}} \times 365$

4. Debtor's Collection Period = D= $\dfrac{\text{Average Debtor's}}{\text{Annual Net Credit Sales}} \times 365$

5. Creditor's Payment Period =C = $\dfrac{\text{Average Creditors}}{\text{Annual Net Credit Purchases}} \times 365$

6. Gross operating cycle (days) = R+W+F+D

7. Net Operating Cycle (days) = R+W+F+D-C

8. No of operating cycles in the year = $\dfrac{365}{\text{Net operating cyle period}}$

9. Amount of working Capital required = $\dfrac{\text{Annual operating Cost}}{\text{Number of operating cycles in the year}}$

10. Permanent working capital: It refers to the hardcore current assets available in the business , independent of the levels of operation of business,

11. Temporary working Capital: It refers to the additional temporary requirement of working capital over and above the fixed minimum amount of working capital.

12. Normally, while calculating the working capital, proposed dividend, provision for taxation are not considered as current liabilities.

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