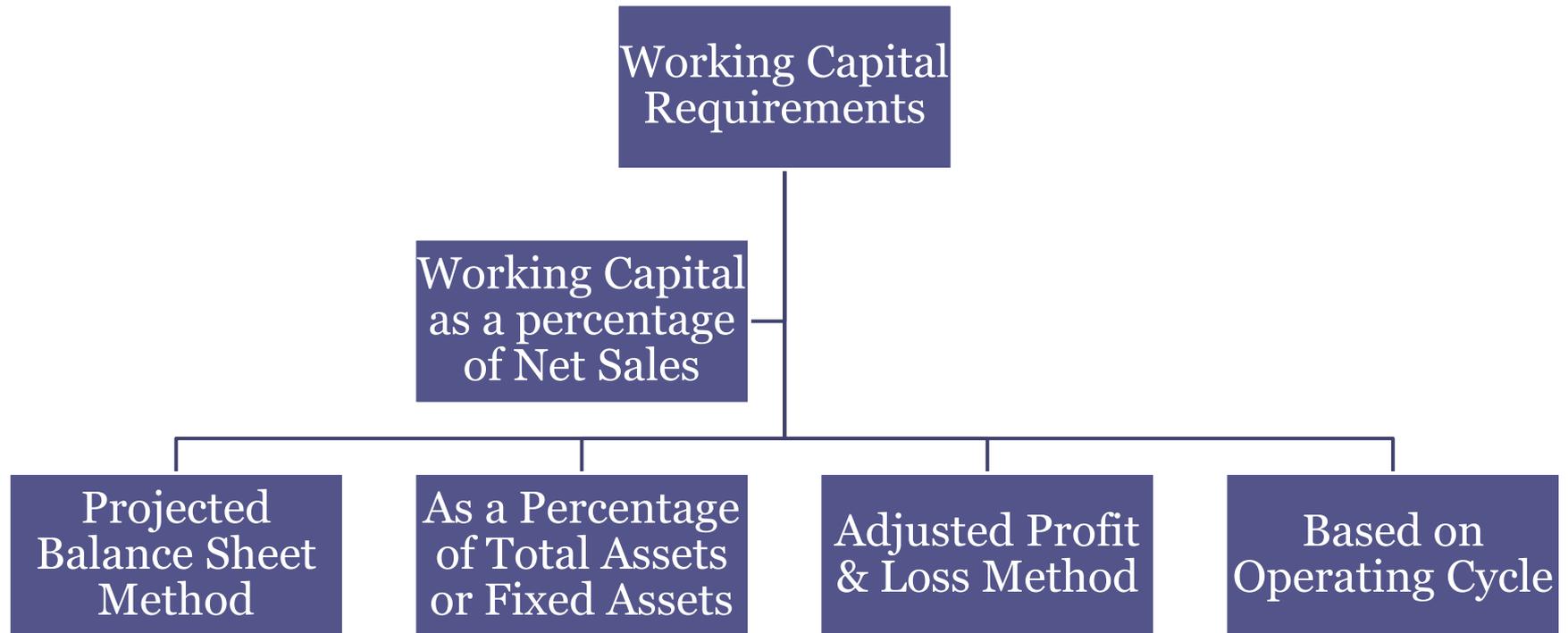


Working Capital Management-2

Computation of Working Capital

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Computation of Working Capital Requirements



Calculating Working Capital as a % of Net Sales

- There are three steps involved in calculating working capital in this method
 1. To estimate total current assets as a % of estimated net sales
 2. To estimate total current Liabilities as a % of estimated net sales
 3. Find out the Difference between 1 and 2. The result is the requisite Net Working Capital

Calculating Working Capital as a % of Total Assets or Fixed Assets

- For Example if a Firm is maintaining 20% of its total assets in the form of current assets and its total assets are Rs.50,00,000, then the current assets of the firm would be Rs.10,00,000.
- Similarly if there is a relationship between fixed assets and current assets and we know the figure of fixed assets then we can know the amount of current assets.

Adjusted Profit and Loss Method

Particulars	Amount
Net Income	
Add: Non Cash Items	
Working Capital from operations	
Cash infow during the Period	
Less:Cash Outflow	
Net Changes in Working Capital	

Projected Balance Sheet Method

- Here based on expected Assets and Liabilities a Projected Balance Sheet is prepared. This is required when a New Business is going to be established.
- This type of projected statements can also be prepared for existing Businesses by taking past data into account.

Calculation of Working Capital based on Operating Cycle

- In the first step Working Capital Cycle is estimated
- Next the no.of Operating Cycles are calculated by dividing 360
- Next step is working capital required is Working Capital is divided by the no. of Operating Cycles in a year.

- For example if the total operating expenses required in a year is Rs.45,000 and the operating cycle is 120 days then the working capital required is as follows:
- No.of Operating Cycle= $360/120=3$
- Working Capital Required = $45,000/3=15,000$

Particulars	Rs.	Rs.
Current Assets:		
i) Cash		
ii) Debtors(For No. of month's Sale)		
iii) Stocks (For No. of month's Sale)		
iv) Advance Payments, if any		
v) Others		

Total Current Assets		
Less:		
i) Creditors(For-- month's Purchases)		
ii) Outstanding expenses(if any)		
iii)		

Total Current Liabilities		
	-	
Working Capital(C.A.-C.L)		
Add Provision for Contingencies	-----	

Net Working Capital Required		-----

- X Ltd. sells its products on 20% Profit on Sales. The Company enjoys one month Credit from supplier of raw materials and maintains 2 months stock of raw material and one and half month's stock of finished goods.
- The Cash balance maintained is Rs.1,00,000
- Assume a margin of 10 % for contingencies

Particulars	Rs.
Sales(3 months Credit)	40,00,000
Raw Materials	12,00,000
Wages (15 days lag)	9,60,000
Mfg.Expenses(One month arrears)	12,00,000
Admin.Expenses(One Month Arrear)	4,80,000
Sales Promotion Expenses(Payable half yearly in advance)	2,00,000

Calculation of Cost of Goods Sold

Particulars	Rs.
Sales	40,00,000
Less: Gross Profit (20% of Sales)	8,00,000
Cost of Goods Sold	32,00,000

Calculation of Working Capital Requirement

Current Assets	Rs.
1. Stock of Raw Materials ($2/12 \times 12,00,000$)	2,00,000
2. Stock of Finished Goods ($(1.5/12 \times 32,00,000)$)	4,00,000
3. Debtors ($3/12 \times 32,00,000$)	8,00,000
4. Prepaid Sales Promotion Expenses	1,00,000
5. Cash Balance Required	1,00,000
A. Total Current Assets (1+2+3+4+5)	16,00,000
Current Liabilities:	
6. Creditors for Goods ($1/12 \times 12,00,000$)	1,00,000
7. Creditors for wages ($0.5/12 \times 9,60,000$)	40,000
8. Credit allowed for Admn. Expenses ($1/12 \times 4,80,000$)	40,000
9. Credit allowed for Mfg. Expenses ($1/12 \times 12,00,000$)	1,00,000
B. Total Current Liabilities (6+7+8+9)	2,80,000
Net Working Capital (A-B)	13,20,000
Add: 10% Margin	1,32,000
Total Working Capital Requirement	14,52,000