

# MANAGEMENT ACCOUNTING - WORKING CAPITAL

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Working capital is defined by experts as follows -

*"Working capital is the amount of funds necessary to cover the cost of operating the enterprises."*

---Shubin

*"Circulating capital means current assets of a company that are changed in the ordinary course of business from one form to another, as for example, from cash to inventories, inventories to receivables, receivables in to cash."*

---Genestenberg

Broadly, there are two types of capital required for a business:

- Fixed Capital
- Working Capital

Fixed capital requires investing in long term investments of business to create production facility through purchase of fixed assets such as building, plant, machinery, furniture etc. Investment in these assets means permanent blockage of capital or for a long term fixed term blockage of funds.

Capital is required for short term purposes to purchase raw material, payment of day to day needs of organization, routine business expenditure, payment of salaries, wages, taxes etc. These funds are called working capital. Working capital refers to capital to finance short term or current assets such as cash, securities, debtors and inventories.

## Gross Working Capital and Net Working Capital

Gross working capital means the investment in current assets, whereas the Net working capital means the difference of current assets and current liabilities. Net working capital can be positive or negative.

### NET WORKING CAPITAL

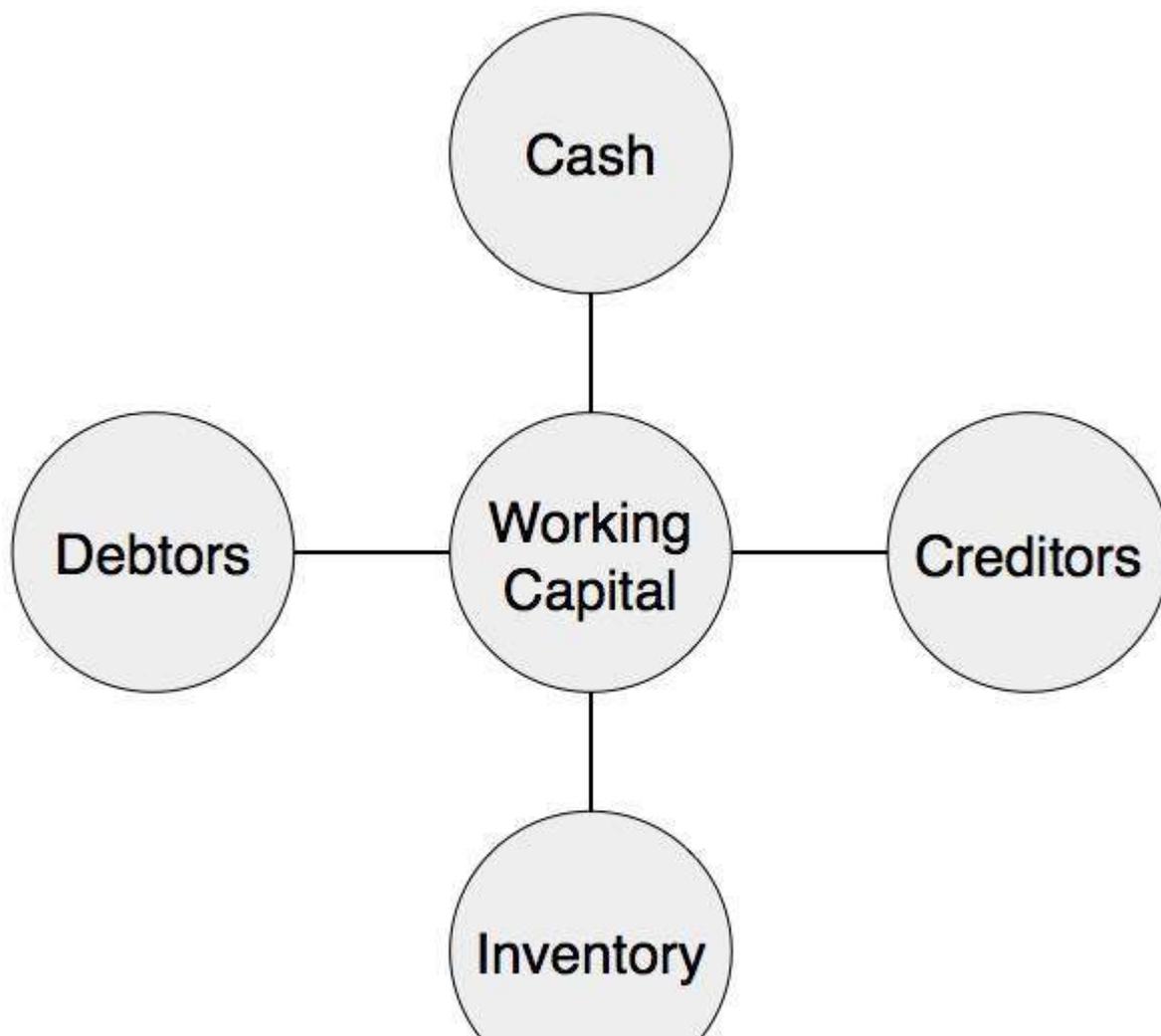
#### A Current Assets

Cash in hand	XXX
Cash at Bank	XXX
Sundry Debtors	XXX
Bills receivables	XXX
Inventories of Stock	XXX
Raw Material	XXX
Work-in-Process	XXX
Finished Goods	XXX

Short Term Investments	XXX
Prepaid Expenses	XXX
Accrued Incomes	XXX
Total Current Assets	XXXXX
<i>B</i> Less: Current Liabilities	
Sundry Creditors	XXX
Short term Loans, advances and deposits	XXX
Bank Overdraft	XXX
Bills payable	XXX
Provisions	XXX
Expenses Payable	XXX
Total Current Liabilities	XXXX
Working Capital $A - B$	XX

### Working Capital Cycle

Generation and disbursement of cash is carried out in the manner depicted by the following diagram:



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