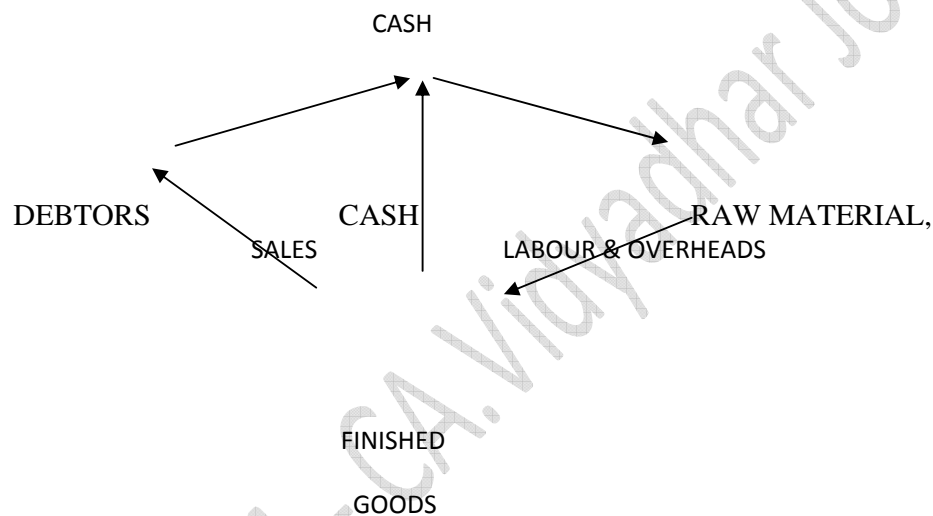


☞ WORKING CAPITAL

Working capital represents excess of current assets over current liabilities. Conversion of working capital to cash is very important for any business. It is a circulating capital and cash generated out of current assets is re-invested in current assets. Working capital requirement keeps changing from time to time.

Cycle of working capital involves conversion of cash into other current assets and conversion of other current assets back to cash, as shown below: -



PROBLEMS

1. Management of Tom Fertilizers has appointed you to give details about working capital requirement for 18,000 units p.a. Selling price of each unit is ₹150. Expected cost per unit:

Raw Material	₹ 60
Overheads	₹ 20
Labour	₹ 40

Other Estimates: -

1. Raw materials will remain in stock for 1- ½ months.
2. Raw materials will remain in process for ½ month.
3. Finished Goods will be in stock for 2 months.
4. Customers are allowed 1 month credit & all sales are on credit basis.

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5. Suppliers allow a credit of 1- ½ months.
 6. There is a time lag of ½ month in payment of wages & overheads.
 7. Minimum cash and bank balance required is ₹90,000.
 8. Production rate will be even during the year. Wages & Overheads accrue evenly during the year.
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2. From the following information prepare working capital requirements statement. Annual production & sales 12,000 units.

Cost Sheet

	₹
Materials	5.00
Labour	2.00
Expenses	<u>1.75</u>
Total Cost	8.75
Add: Profit	<u>1.25</u>
Sales Price	<u>10.00</u>

1. Customers are given 2 months credit & suppliers allowed 3 months credit.
 2. 45 days of supply of Raw Material and 15 days of Finished Goods are stored in.
 3. Production cycle is 15 days.
 4. Cash balance required 1/3rd of working capital excluding cash balance.
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3. From the following information prepare working capital requirements:

	₹
Materials	3,65,000
Labour	1,46,000
Expenses	<u>1,27,750</u>
Total Cost	6,38,750
Add: Profit	<u>91,250</u>
Sales	<u>7,30,000</u>

1. Customers are given 60 days credit & suppliers give 50 days credit.
 2. Supply of Raw Materials for 40 days & Finished Goods for 15 days are carried out in warehouse.
 3. Production process takes 20 days.
 4. Cash at hand should be 25% of total working capital.
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4. Mario Ltd. sells its goods in domestic as well as foreign market. Domestic selling prices are at 25% gross profit on sales and export prices are 10% below the domestic prices. Following are the estimated annual figures for next year: -

	₹
Sales: Domestic	1,80,000
Export	36,000
Material consumption	54,000
Wages (time lag 1 month)	42,000
Manufacturing Expenses (1 month in arrears)	66,000
Depreciation	3,000
Administration Expenses (1 month in arrears)	60,000
Sales promotion expenses (Payable quarterly in advance)	30,000

Company's policy is to keep 1 months stock of raw materials & finished goods and cash ₹10,000. Domestic customers are allowed credit of 2 months & foreign customers of 3 months. Suppliers allow 2 months credit.

Ascertain the funds required for working capital keeping in addition 10% as safety margin.

5. Proforma cost sheet of a company provides following details -

	₹ Per unit
Raw Materials	80
Direct Labour	30
Overheads	<u>60</u>
Total Cost	170
Profit	<u>30</u>
Selling Price	200

- Raw Materials are in stock on an average for 1 month.
 - Materials are in process for 1/2 month.
 - Finished goods are in stock for 1 month.
 - 1/4 sales are on cash basis. Cash/bank balance is estimated to be ₹25,000.
 - Level of activity 1,04,000 units per annum. Time period of 4 weeks is equivalent to a month.
 - Time lag for debtors and creditors 1 month.
- Find out working capital estimate.

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6. Mr. Man has Head Office at Chennai. His assets and liabilities as on 10th April, 2005 are as under: -

Liabilities	₹	Assets	₹
Capital	80,000	Fixed Assets	16,000
Creditors	20,000	Cash	1,500
		Bank	7,500
		Debtors	50,000
		Stock	25,000
	1,00,000		1,00,000

He decides to open a Branch at Madurai. It is expected that Madurai Branch will require capital of ₹ 1,25,000 of which ₹50,000 would be towards Fixed Assets. There are no other Short Term Loans available.

You are asked to compute Working Capital in business, required by H.O. & Branch.

7. Compute for a new company Milk Ltd. the duration of the operation working capital cycle from the following figures of year 2015-16 assuming 360 days per year comprising age of raw materials, finished goods, debtors and creditors only.

Closing stocks of: -

	₹
Raw material	20,000
Work-in-Process	14,000
Finished Goods	21,000
Purchases	96,000
Cost of goods sold	1,40,000
Sales	1,60,000
Closing debtors	32,000
Closing Creditors	16,000

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