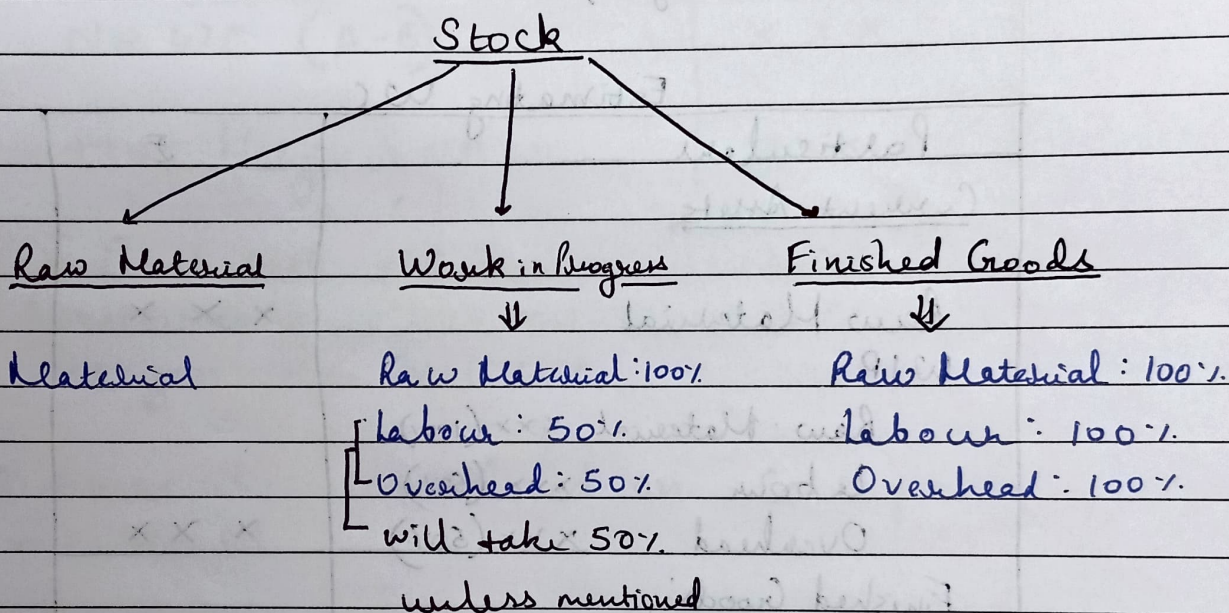


Working Capital Management

We have estimate money requirement for daily activities

$$WC = CA - CL$$



Overhead means to expenses clubed together such as rent, electricity etc. Even depreciation is overhead
⇒ Remove depreciation from overheads as we don't need money for depreciation

Debit → Raw material
→ labour
→ Overhead

Cash/Bank

These all are current assets and their sum is called Gross Current Assets ^{Working Capital}

Current liabilities

Material (on debt) Labour (pending wages) Overhead (o/s)

Estimating W.C

Particulars	£
<u>Current Assets</u>	
Raw Material	x x x
WIP:	
Raw Material x x x (100%)	
Labour x x x (50%)	
Overhead x x x (50%)	x x x
Finished Goods:	
Raw Material x x x (100%)	
Labour x x x (100%)	
Overhead x x x (100%)	x x x
Debtors:	
Raw Material x x x	
Labour x x x	
Overhead x x x	x x x
Cash / Bank	x x x
A. Gross Working Capital	x x x x

<u>Current Liabilities</u>	
Material (creditor)	x x x
Labour (O/s)	x x x
Overheads (O/s)	x x x
B. Total	x x x
Net WC (A-B)	x x x
+10% Margin on Net WC	x x x
Final Net WC	x x x

Sometimes question mentions to create margin on Net WC.

Debtors are considered on cost price unless mentioned.

Credit Policy

It is deciding credit time to be provided to boost sales. It can also lead to bad debts, money will be stuck & specially if taken on loan, hiring recovery agent.

Credit Policy		30 days
Particulars		₹
Sales		xxx
(-) Variable Cost	xxx	
(-) Fixed Cost	xxx	(xxx)
A. EBIT		xxx
B. Interest (Inv. in Debt $\times \frac{R}{100}$)		xxx
C. Bad Debt		xxx
Profit (A - B - C)		xxx

$$\text{Investment in Debt} = \text{Total Cost} \times \frac{M/D}{12/365}$$

Fixed cost will remain same but variable cost will depend on the no. of units or sales.

Investment is calculated from $FC + VC$

//_

$$\text{Profit Value Ratio} = \frac{\text{Contribution}}{\text{Sales}} \times 100$$

$$\text{Contribution} = \text{Sales} - \text{VC}$$

$$\text{Contribution} = \text{FC} + \text{Profit}$$

$$\text{VC \%} = 100 - \text{PVR}$$

$$\text{Debt Turnover Ratio (DTR)} = \frac{\text{Credit Sales}}{\text{Avg. Debt}}$$

Economic Order Quantity (EOQ)



Stock

Order
Cost
(cost
to
buy)

Carrying
Cost
(cost to
keep)

$$EOQ = \sqrt{\frac{2AO}{C}}$$

A = Annual Demand

O = Order Cost at 1 time

C = Carrying Cost (₹ P/unit)

$$\text{No. of orders} = \frac{\text{Annual Demand (unit)}}{EOQ}$$

$$\text{Gap b/w 2 orders} = \frac{365}{\text{No. of orders}}$$

$$\text{Carrying Cost} = \frac{1}{2} EOQ \times C$$

$$\text{Ordering Cost} = \frac{A}{EOQ} \times O$$

$$\text{Total Cost} = \text{Cost of Annual Demand} + OC + CC$$

___/___/___

Reorder level: Maximum Usage $\times$ Maximum Time

Maximum level: Reorder level + Reorder quantity / $\frac{EOQ}{\text{Minimum Usage} \times \text{Minimum Time}}$

Minimum level: Reorder level - $\left(\frac{\text{Normal Usage} \times \text{Normal Time}}{\text{Normal Time}} \right)$

Average level: $\frac{\text{Min level} + \text{Max level}}{2}$