



RAMA UNIVERSITY

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FACULTY OF COMMERCE AND MANAGEMENT

COURSE: MBA III SEM..

SUBJECT: WORKING CAPITAL MANAGEMENT

SUBJECT CODE: MBAFM01

LECTURE: 3

NAME OF FACULTY: DR. PALASH BAIRAGI

LECTURE-3



CHARACTERISTICS OF WORKING CAPITAL

- 1. Short –term Requirements:** Working capital is utilized to purchase current assets which can be easily converted into cash in short period of time. The length of production process decides the duration of working capital; it is the time period between sale and cash receipts.
- 2. Circular Movement:** Working capital is continuously transformed into cash but it again turns into working capital. This process is on continuous basis. When cash is utilized to purchase current assets and with the help of current assets goods are produced and sold then therefore working capital is also termed as circulating capital.
- 3. Permanence:** Working capital is a short-term capital but in order to continue the production process it is always required by the firm. Hence working capital is also termed as permanence or regular working capital.
- 4. Instability:** Though working capital is required permanently in a firm but the amount of working capital required frequently changes with the changes in production level, changes in purchase, sale policy, price level and demand level. The amount of working capital that changes due to changes in other factors is called variable working capital.
- 5. Liquidity:** Working capital can be easily converted into cash, hence it is more liquid. Firms which maintain adequate amount of working capital finds easy to convert it into cash in time when cash is required.
- 6. Less Risky:** Working capital is the investment in current assets which is for a short period of time. Hence it involves less risk. Working capital does not involve any risk related to technological changes. It involves a very less amount of physical risk only.
- 7. Special Accounting System not Required:** As working capital is for short-term usually for one year. Hence, there is no need to adopt special accounting system for it.