RAMA UNIVERSITY
UTTAR PRADESH KANPUR

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FACULTY OF COMMERCE AND MANAGEMENT

COURSE: MBA III SEM..

SUBJECT: WORKING CAPITAL MANAGEMENT

SUBJECT CODE: MBAFM01

LECTURE: 6

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LECTURE-6

1. Regression Analysis Method (Average Relationship between Sales and Working Capital):

This method of forecasting working capital requirements is based upon the statistical technique of estimating or predicting the unknown value of a dependent variable from the known value of an independent variable. It is the measure of the average relationship between two or more variables, i.e., sales and working capital, in terms of the original units of the data.

The relationships between sales and working capital is represented by the

$$\boxed{Y = a + bx}$$

THE equation: Where, y = Working Capital (dependent variable)

a = Intercept of the least square

b = Slope of the regression line

x = Sales (independent variable

2. Cash Forecasting Method: This method of estimating working capital requirements involves forecasting of cash receipts and disbursements during a future period of time. Cash forecast will include all possible sources from which cash will be received and the channels in which payments are to be made so that a consolidated cash position is determined. This method is similar to the preparation of a cash budget. The excess of receipts over payments represents surplus of cash and the excess of payments over receipts causes deficit of cash or the amount of working capital required. The following illustration explains the cash forecasting method of estimating working capital requirements.