



RAMA UNIVERSITY

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FACULTY OF COMMERCE AND MANAGEMENT

COURSE: MBA III SEM..

SUBJECT: WORKING CAPITAL MANAGEMENT

SUBJECT CODE: MBAFM01

LECTURE: 7

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LECTURE-7



Operating Cycle Method: This method of estimating working capital requirements is based upon the operating cycle concept of working capital. We have discussed earlier, in this chapter, the concept and determination of duration or operating cycle. The cycle starts with the purchase of raw material and other resources and ends with the realization of cash from the sale of finished goods. It involves purchase of raw materials and stores, its conversion into stock of finished goods through work-in-process with progressive increment of labor and service costs, conversion of finished stock into sales, debtors and receivables, realization of cash and this cycle continues again from cash to purchase of raw material and so on. The speed/time duration required to complete one cycle determines the requirement of working capital – longer the period of cycle, larger is the requirement of working capital and vice-versa.

Projected Balance Sheet Method: Under this method, projected balance sheet for future date is prepared by forecasting of assets and liabilities by following any of the methods stated above. The excess of estimated total current assets over estimated current liabilities, as shown in the projected balance sheet, is computed to indicate the estimated amount of working capital required.