

Meaning → Working cap is part of total cap. The funds invested in current assets such as stock of materials, work in progress, B/L, sundry debtors, Bank Bal, etc. are known as working cap / short term cap.

Components of W.Cap.

- 1) Current Assets
- 2) Current Liab

Def. → A/c to "Shubin", "W.Cap is the amount of funds necessary to cover the cost of operating the enterprise.

→ A/c to "Klinton & Beigham", "W.C refers to a firm's investment in short term assets → cash, short term securities, A/c's receivables & inventories.

## Objectives of W.C.

- 1) purchase of raw material.
- 2) Pay Wages & Salaries
- 3) To incur day to day exp.
- 4) Provide cr. facilities to customer.

## Classification of Working Cap.

- 1) Gross working cap. → Refers to the total investments in current assets.
- 2) Net working cap → Net current assets i.e. the excess of current assets over current liab.

$$W.C. = \text{Current Assets} - \text{Current Liab.}$$

- 3) Negative W.C. → When the CL are more than CA.
- 4) Permanent W.C. → Amt of W.C. remaining in the b/c permanently eg → Cash / Bank bal, Stock etc.
- 5) Variable W.C. → Refers to the amt of working cap goes on changing

from time to time with the change in the volume of BLS activities.  
 eg -> Any changes in the demand.

### Imp of / Advan

- 1) Protects the solvency of the firm.
- 2) Creation of goodwill.
- 3) Easy loan.
- 4) Cash discounts.
- 5) Ability to face crises / difficulties.

Parti.	Ant	Ant
95 Current Assets		
* Opening Inventories		
- Raw materials	xx	
-> Finished goods	xx	
-> Work in progress	xx	xxx.
* Debtors based on Cui Sales in land of foreign sales		xxx.
* Prepaid Exp or advanced paid		xxx.
* Cash bal		xxx.
		xxx.
100 Current Liab		

* Cost based on Cr purchase	xx	
* Advanced received from debtors	xx.	
* Klages	xx	
* Manufacturing exp	xx	xxx
		xxx.
<u>Add:</u> Contingencies		xx
Required Working Cap.	→	xxx.

### \* Constituents of Current Assets.

- 16 Cash in hand / Bank bal.
- 26 Bills receivable.
- 36 Sundry debtors [ less PBD ]
- 46 Short-term loans & advances
- 56 Inventories of stock. → Raw materials.
  - Work in progress
  - Stores & spares
  - Finished goods etc.
- 66 Temporary Investment of Surplus funds
- 76 Prepaid Exp.
- 86 Accrued Income.

## \* Constituents of Current Liab

- 1/6 B/P.
- 2/6 Sundry Crs. / Accounts payable
- 3/6 Accrued of outstanding exp
- 4/6 Short-term loans, Advances & deposits.
- 5/6 Dividends payable.
- 6/6 Bank O/D.
- 7/6 Provision for Taxation, if does not amt to appropriation of profits.

16 From the following details you are required to make an estimate of the avg amt of working cap required for AB Ltd.

	Particulars	Avg period of time (Cr)	Am't.
16	Purchase of material. CA	6 weeks	2600000
26	Wages CL	1 1/2 week	1950000.
36	<u>Over heads</u> (Exp)		
	Rent & Rates CA	6 months	100000.
	Salaries CL	1 months	800000.
	Other overhead CL	2 months	750000.
46	Sales (Cash) CA X		2000000.
56	Sales (Cr) CA	2 months	6000000.
66	Avg amt of stock & work in prog CA.		4000000
76	Avg amt of underworn X profit		300000.

It is assumed that all the Exp & incomes were made at the given date for the particular Yr.

Particulars		Amnt.
34 Current Assets (A)		
16 Stock of Raw materials & works in progress	400000	400000
26 Debtors (Credit sales) $6000000 \times \frac{2}{12}$	1000000	1000000
		1400000
Goods blocking cap (A)		1400000
<u>Less: Current Liab. (B)</u>		
16 Credit = $2600000 \times \frac{6}{52}$	300000	
26 Wages = $1950000 \times \frac{1.5}{52}$	56250	
26 Rent & Rates = $100000 \times \frac{6}{12}$	50000	
26 Salaries = $800000 \times \frac{1}{12}$	66667	
56 Other Overheads = $1500000 \times \frac{2}{12}$	125000	597917
Net WC (A - B)		802083
<u>Add: Contingents</u>		-
Required kl cap.		<u>802083</u>

Note -> Underearn profit have been excluded for the full reasons.  
 16 profits may or may not be used as blocking cap

26 Even if it is to be used as blocking cap, it should be reduced by Income tax, dividends, etc.

27  
 (2) ABC estimates the following as a firm manager, estimate the amount of WC required for the year 2017 after making provision of 10% for contingencies.

	Particulars	Amount for the Year (₹)
a)	<u>Amount blocked goods.</u>	
	• Stock of finished goods	100000
	• Stock of raw materials CA	900000
b)	<u>Req. Cee given.</u>	
	• Inland sales - 6 weeks	1560000
	• Export sales - 1½ week	1800000
c)	<u>(delay) lag in payment.</u>	
	• Wages - 1½ weeks CL	1300000
	• Raw materials - 1½ mon	480000
	• Rent - 6 months	100000
	• Clerical staff - ½ months	812000
	• Manager salary - ½ month	480000



	• Mis Exp - 1 1/2 mon	72000.
dt	Payments <u>in advance</u>	
	• Sunday exp paid quarterly in advance	100000.

Assume 52 weeks in a year

Soln

Particulars	Amnt	Amnt
<b>It Current Assets</b>		
• Opening Inventory		
• Stock of finished goods	10000.	
• Stock of raw materials	90000.	
<b>* Debtors i.e. Cr Sales.</b>		
• Standard Sales $1560000 \times 6/52$	180000	
• Export Sales $780000 \times 1.5/52$	22500.	
<b>* Payments in advance</b>		
• Sunday	20000.	387500
<b>Gross Net Capital</b>		387500

Less:				
Current Liab.				
Wages	$1300000 \times 1.5/52$		31500.	
Raw material	$480000 \times 1.5/12$		60000.	
			<del>13846</del>	
Rent	$100000 \times 6/12$		50000.	
Clerical staff	$312000 \times 0.5/12$		13000.	
Manager Salary	$48000 \times 0.5/12$		2000.	
Mis. Exp	$12000 \times 1.5/12$		9000.	111800
		Net profit / W. Cap.		216000
Add	Contingencies 10% on Net W. Cap			21600
	Required W. Cap.	→		237600.

2011  
 (3) Estimates the full  
 As a firm Manager estimate the avg  
 amt of W. Cap required for the year  
 after making a provision of 10% for  
 contingencies.

## Details

Amt.

Ab	Ant	blocked goods	80000.
		Stock of finished goods	45000.
		Stock of raw materials	
Bb	Aug	Cr given.	
		• Inland Sales - 6 week.	-180000.
		• Export Sales - 1.5 week	390000.
cb		lag in payments	
		• Inland 1.5 week	650000.
		• Raw mater. 1.5 month	240000.
		• Rent 6 month	50000.
		• Clerical 0.5 m	156000
		• Manager Salary 0.5 m	24000.
		• Misc Exp 1.5 m	36000.
cb		Payments	
		Sundry Exp quarterly in advance	50000.

Assume 52 weeks in a year.

Particulars	Am't	Am't.
<u>Ab</u> Current Assets.		
* Opening Inventories.		
• Stock of finished goods.	35000.	
• Stock of raw material	48000.	
* Debtors i.e. Cr sales.		
• Inland Sales. $780000 \times 6/50$	90000.	
• Export Sales $390000 \times 1.5/50$	11250.	
* Payments.		
• Sundry exp paid $50000 \times 1/4$	12500	193750
Gross Kl. Cap	—	193750.
<u>less B</u> Current Liab.		
• Wages $680000 \times 1.5/50$	18750	
• Raw mat $240000 \times 1.5/12$	30000.	
• Rent $50000 \times 6/12$	25000.	
• Clerical Exp. $156000 \times 0.5/12$	6500.	
• Manager Salary $24000 \times 0.5/12$	1000.	
• Mis Exp. $36000 \times 1.5/12$	4500.	85150.
Net Kl. Cap	—	108000.
		85
<u>Add</u> : Contingent 10% on N.		10800.
		<u>118800</u>

2015

You are given below the estimate, As a  
fin Manager set up your Cal<sup>n</sup> for the arg  
amt of Cal Cap, required for the Per end  
of 2015 after making a provision of 20%  
for contingencies.

9/3/2020

PM

Date

- Stock of finished goods — £ 5000.
- Stock of Raw materials — £ 10000
- Domestic Cr Sales 6 weeks — £ 156000
- Export Cr Sales 3 weeks — £ 39000.

lag in payment.

- Wages & other outgag
- Wages 1 1/2 weeks — £ 130000
- Cost of materials 1 1/2 month — £ 24000.
- Rent 6 months — £ 5000.
- Clerical staff 1/2 mon — £ 31200.
- Manager salary 1/2 mon — £ 2400.
- Misc exp — £ 1 1/2 month — £ 24000
- Pre paid sundry exp quarterly — £ 4000

Soln

Particulars	Ant	Ant.
<b>* Current Assets.</b>		
• Stock of Finished Goods	5000	
• Stock of Raw materials.	10000.	
<b>* Cr. i.e Cr Sales.</b>		
• Domestic Cr sales $156000 \times 6/52$	18000.	
• Export Cr Sales $39000 \times 3/52$	2250.	
<b>* payments in advanc. <math>4000 \times 1/4</math>.</b>	1000	36250
<b>Gross W cap — £.</b>	.	36250
<b>Liab.</b>		
• Wages. $130000 \times 0.5/52$	3750.	
• Cost of mat $24000 \times 1.5/12$	3000.	
• Rent. $5000 \times 6/12$	2500.	
• Clerical staff $31200 \times 0.5/12$	1300.	
• Manager Salary	100.	
• Misc Exp. $24000 \times 0.5/12$	2000.	13650

	Net kl. Cap.	22600
<u>Add</u> :	Contingency 20% x 22600.	4520.

Working Cap Required. 27120

2018 From the following info estimate the working cap requirement of Vishwanath Co. Ltd

	Particulars	Am.
Dr	Am't blocked up for stock	
	• Stock of finished goods	6000.
	• Stock of store of Mater	10000.
Dr	• Avg Cr. given	
	• Inland sales (6 weeks)	300000
	Export sales Cr (2 weeks.)	30000.
Dr	Lag in pay of wages & out gng.	
	• Wages (2 weeks)	200000.
	• Stock of mater (2 months)	50000.
	• Rent (6 months)	10000.
	• Clerical staff (1 month)	5000.
	• Mis Exp (2 mon)	60000.
Dr	Pay in advance	
	• Sundry Exp paid half yearly	10000.
Add	10% for Contingencies to Net W. Cap.	

Solu<sup>n</sup>

	Particulars	Ant	Ant.
*	Current Asset.		
	• Stock of finished goods	6000.	
	• Stock of store raw mat	10000.	
*	Avg Cr. Sales		
	• Inland $6/50 \times 300000$	34615. <sup>38</sup>	
	• Export $30000 \times 2/50$	1154.	
*	Prepaid $10000 \times 1/2$	5000.	56769
	Gross Inv. Cap $\rightarrow$		56769
*	lag in payments.		
	• Wages $250000 \times 2/50$	9615.	
	• Stock of mat $50000 \times 2/10$	8333.	
	• Rent $10000 \times 6/12$	5000	
	• Staff $5000 \times 1/12$	417	
	• Exp $60000 \times 2/12$	10000.	
			33365.
			23404
	<u>Add.</u> : Contingency @ 10%		2340.4
	Working Cap required $\rightarrow$		<u>25745</u>

2014

On 1/1/2015 a Co. planned a prog for the yr & desire to know working Cap requi from the following info. prepare & estimate of Working Cap required for casted p & i etc neglecting dep<sup>n</sup> on fixed assets.



Issued shared Cap	400000.
2% debentures	100000.
Fixed Assets on 1/1/2015	250000

Prod<sup>n</sup> during 2014 was 100000 units & it is proposed to maintain the same during 2015. The expected ratios of cost to selling price are Raw materials 60%, direct wages 10%, & Overheads 20%. Further info are as follows.

1. Raw materials are expected to remain in stores for an avg of 2 months before issue to the prod<sup>n</sup>.
2. Each unit of production is expected to be in process for 1 month.
3. Finished goods will stay in Warehouse awaiting dispatch to customer's for approximately 3 months.
4. Cr. allowed by Cr. is 2 months from the date of delivery of Raw material.
5. Cr. given to Cr. is 3 months from the date of dispatch.
6. Selling price. Rs 5/unit
7. Sales of prod<sup>n</sup> follow the consistent pattern.

Solo

particulars

Amt.

Amt.

A) Current Assets.

\* stock of raw materials

$120000 \times 5 \text{ unit} = 600000 \times 60\% \times \frac{2}{12} \text{ M}$

60000.

ab \* stock in progress (mat + lab + overhead)

-> Raw mat (120000 x 5/unit = 600000)

$(600000 \times 60\% \times \frac{1}{12})$

30000.

-> labour (120000 x 5% = 600000 x 10% x  $\frac{1}{12}$ )

5000.

-> Overhead (120000 x 5% = 600000 x 20% x  $\frac{1}{12}$ )

10000.

45000.

b) \* stock of finished goods.

+ Raw mat (120000 x 5/unit = 600000 x 60% x  $\frac{3}{12}$ )

90000

+ labour (120000 x 5 unit = 600000 x 10% x  $\frac{3}{12}$ )

15000.

+ O/H (120000 x 5 = 600000 x 20% x  $\frac{3}{12}$ )

30000

135000.

c) \* Debt.

+ Raw material (120000 x 5 = 600000 x 60% x  $\frac{3}{12}$ )

90000

-> labour ( " " = 600000 x 10% x  $\frac{3}{12}$ )

15000

-> O/H ( " " = 600000 x 20% x  $\frac{3}{12}$ )

30000

135000.

Gross Working Cap

315000.

B) less Current Liab

\* (less Purchase of Raw materials).

$[120000 \times 5 = 600000 \times 60\% \times \frac{2}{12}]$

60000

Net Wl. Cap

315000.

Add: Contingencies

Nil

Working Cap Requirement.

315000.

Forecasted P/L A/c.

Dr	Income / Receipts	Amt.	Cr	Expense / Payments	Amt.
	To materials (5 x 6% = 3 x 120000)	360000.		By Cost of Goods Sold	540000
	To labour 5 x 10% = 0.5 x 120000	60000			
	To Over head 5 x 20% = 1 x 120000	120000.			
		<u>540000</u>			<u>540000</u>
	To Cost of Goods Sold	540000.		By Sales	600000
	To Goods pft	60000.			
		<u>600000</u>			<u>600000</u>
	To Int on deb. 100000 x 8%	8000		By Goods pft	60000
	To Net profit	52000.			
		<u>60000</u>			<u>60000</u>

Forecasted Balance sheet.

Liab	Amt	Assets	Amt.
Share Cap	400000	Fixed Assets	250000.
8% deb	100000	Stocks	
Cur	60000	• Raw Mat	60000
Net pft	52000.	• Work in Prog	45000
		• Finished Goods.	135000.
Bank overdraft	13000	Debtors	135000
[bal fig]			<u>625000</u>

Note → If Int on deb has been assumed to have been paid.

If Profits may / may not be used for blocking cap

36 Even if profits have to be used to be w. cap, they have to be reduced by the amt of Income tax, dividend etc.