1. WORKING CAPITAL MANAGEMENT – A THEORETICAL REVIEW

Introduction

Apart from its long-term requirements, every business also wants funds for short-term purposes for the purchase of raw materials, payments of wages and other day-to-day expenses, etc. These funds are known as Working Capital. In simple words, working capital refers to that part of the firm’s capital which is required for financing short-term or current assets such as cash, marketable securities, debtors and inventories. Funds thus invested in current assets keep rotating fast and are being constantly converted into cash and this cash flow out again in exchange for other current assets. Hence, it is also known as Revolving or Circulating Capital.

Circulating capital means current assets of a company that are changed in the ordinary course of business from one form to another, as for example, from cash to inventories, inventories to receivables, receivables into cash.

Working capital may be regarded as the life blood of a business. Its effective provision can do much to ensure the success of business firm. On the contrary, if the firm fails to maintain an adequate level of working capital, it is likely to become insolvent and may even be forced into bankruptcy. It is, therefore, important for the management to pay specific attention to the planning and control of working capital. Working Capital Management is concerned with the problems that arise in attempting to manage the current assets, current liabilities and the inter-relationship that exists between them. The goal of Working Capital Management is to manage current assets and current liabilities of a firm in such a way that an acceptable level of net working capital is maintained. The interaction between the current assets and current liabilities is, therefore, the main theme of the theory of Working Capital Management.
Concepts of Working Capital

There are two concepts of working capital: one is ‘Gross Working Capital’, which is quantitative in nature and the other is ‘Net Working Capital’, which is qualitative in nature. According to the gross concept, the term working capital refers to the total of all current assets. This concept of working capital takes into consideration all the current resources of the enterprise and their application to the current and future activities.

The net concept explains working capital as excess of current assets over current liabilities. It is based on accounting logic. Excess of equity and long-term liabilities over fixed assets and investments is termed as net working capital. In a similar way, the excess of the total current assets over the current liabilities is called as net working capital. According to this concept, current assets must exceed current liabilities and then only there can be working capital. On the other hand, if the current liabilities exceed the current assets, there is no working capital, but there is a working capital deficit.

The two concepts of working capital, gross and net, are not exclusive, rather they have equal significance from the management point of view. The gross working capital concept focuses attention on two aspects of current assets management. Those are:

1. Optimum investment in current assets and
2. Financing of current assets.

The consideration of the level of investment in current assets should avoid two danger points, i.e., excessive or inadequate investment in current assets. The investment in current assets should be just adequate, not more or less to the needs of the business firm. It should be realized that the working capital needs of the firm may be fluctuating with changing business activities. This may cause excess or inadequate working capital frequently. For that, management should initiate prompt and timely action and correct the imbalance. Another aspect of the gross working capital points to the need of arranging funds to finance current assets. Apart from the regular working capital, whenever the need of additional working capital funds arises, the arrangements should be
made quickly. Similarly, if suddenly some surplus funds arise during the normal operation, they should not be allowed to remain idle, instead of, it should be invested in short-term securities.

Similarly, the net working capital concept is also important because:

1. It indicates the liquidity position of the firm, i.e., firm’s ability to meet its current obligations as and when they become due and
2. It suggests the extent to which working capital needs may be financed by the permanent sources of funds.

For the ordinary operating cycles of a business, current assets should be sufficiently in excess of current liabilities so that a fair margin of protection can be available to the short-term creditors. A weak liquidity position possesses a threat to the solvency of the company and makes it unsafe and unsound. A negative working capital is unsuccessful for the company. Excess liquidity is also bad as it indicates accumulation of unutilized short-term funds. Therefore, prompt and timely action should be taken by the management to correct the imbalance in the liquidity position of the firm.

The net working capital concept also covers the question of judicious mix of long-term and short-term funds for financing current assets. For every firm, a minimum amount of net working capital is permanent. Therefore, a portion of the working capital should be financed with the permanent sources of fund such as owner’s capital, debentures, long-term debts, preference share capital or retained earnings. Management must, therefore, decide the extent to which current assets should be financed with equity capital and borrowed funds.

**Permanent and Temporary Working Capital:-**

On the basis of concept, working capital is classified as gross working capital and net working capital as discussed earlier. Again, on the basis of time, working capital may be classified as:
1. Permanent or Fixed Working Capital
2. Temporary or Variable Working Capital

- **Permanent or Fixed Working Capital:**

Permanent or Fixed Working Capital is the minimum amount which is required to ensure effective utilization of fixed facilities and for maintaining the circulation of current assets. There is always a minimum level of current assets which is continuously required by the enterprise to carry out its normal business operation. For example, every firm has to maintain a minimum level of raw materials, work-in-process, finished goods and cash balance. This minimum level of current assets is called ‘permanent or fixed working capital’ as this part of capital is permanently blocked in current assets. As the business grows, the requirement of permanent working capital also increases due to the increase in current assets. The permanent working capital can further be classified as Regular Working Capital and Reserve Working Capital, required to ensure circulation of current assets from cash to inventories, from inventories to receivables and from receivables to cash and so on. Reserve working capital is the excess amount over the requirement for regular working capital which may be provided for contingencies that may arise at unstated periods such as strikes, rise in prices, depression, etc.

- **Temporary or Variable Working Capital:**

Temporary or Variable Working Capital is the amount of working capital which is required to meet the seasonal demands and some special exigencies. Most of the enterprises have to provide additional working capital to meet the seasonal and special demands. The capital required to meet the seasonal needs of the enterprise is called Seasonal Working Capital and the part of the capital which is required to meet the special exigencies such as launching of extensive marketing campaign for conducting research, etc., is called Special Working Capital.
Circulating System of Working Capital:-

The current assets and current liabilities flow round in a business like an electric current. The working capital plays the same role in the business as the role of the heart in human body. Just like heart gets blood and circulates the same in the body, in the same way, working capital funds are generated and these funds are circulated in the business. As and when this circulation stops, the business become lifeless. It is because of this reason that the working capital is known as Circulating Capital. In the words of the famous economist Adam Smith, “the goods of the merchant yield him no revenue or profit till he sells them for money and the money yield him a little till it is again exchanges for goods. His capital is continuously going from him in one shape and returning to him in another and it is only by means of such circulation or excessive exchanges, that it can yield him any profit. Such capital, therefore, may very properly be called circulating capital”. To have a clear-cut understanding, a diagrammatic representation of working capital cycle is given below:
As can be seen in the above figure, in any business, generally a portion of the funds generated from issue of shares, borrowing and from operations are used to pay creditors for materials, etc; and the other fact includes the process of materials and distribution of wages and overhead expenses are paid. This makes available stock of finished goods, by sale of which either debtor is created or cash is received, thus generating profit. A portion of profit is utilized for payment of interest, tax and dividend and the other portion is kept for distribution of dividends to shareholders. This cycle continues throughout the life of any business. As and when the cycle stops, the day-to-day operations of the business also stops which may prove to be fatal to the very existence of the organization. Therefore, it is essential to invest sufficient amount of funds in current assets for smooth and uninterrupted production and sales process.

**Structure of Working Capital:-**

The study of the structure of working capital refers to the actual composition of the items making up the working capital. As such, it depends upon the amount of individual current assets and current liabilities. The term Current Assets generally refers to those assets which in the ordinary course of business can be turned in to cash within a short period of one accounting year without undergoing a diminution in value and without disrupting the operations of the firm. The major current assets are: Inventory, Receivables and Cash. On the other hand, Current Liabilities are those liabilities which are intended at their inception to be paid in the ordinary course of business within a short period of one accounting year, out of the current assets or earnings of the firm. The basic current liabilities are Bank Credit, Trade Credit and Other Short-term Sources of Fund. The major components of both current assets and current liabilities are explained here under:

- **Current Assets**
  - *Inventory*

  Inventory generally occupies the most strategic position in the structure of working capital of business enterprises. Maximization of income and profit mainly depends upon the turnover of working capital, which in turn is mostly determined by the
turnover of inventory. It may therefore be recognized as the most important item of current assets of a business enterprise. Generally inventory is composed of assets what will be sold in future in the normal course of business operations. The assets, which form stores as inventory in anticipation of need, are:

a. Raw material inventory, which contains items that are purchased by the firm from others and are converted into finished goods through the manufacturing process,
b. Work-in-process inventory, which consists of items that are currently being used in the production process and
c. Finished goods, which represent final or completed products available for sale. In any business, the extreme level of inventory, i.e., too high or too low is always undesirable. If being a very important component of working capital, proper inventory management is necessary, which generally requires arriving at a balance between inventory carrying cost and adequately meeting demand.

- **Receivables**

Like inventory, receivable also occupies an important position in the structure of working capital. The term Receivable is may be termed as a debt owed to the firm by the customers arising from sale of goods or services in the ordinary course of business. When a firm makes an ordinary sale of goods or services and does not receive payment, the firm grants trade credit to its customers and creates accounts receivable, which would be collected in future. Generally credit sales and therefore receivables are treated as an essential marketing tool to aid the sales of goods in today’s competitive economic system. In fact, very few firms usually operate on a “cash and carry” basis. However, extension of credit involves both risk and cost. Therefore, the objective of receivable management should be to balance profits and receivables where equilibrium is to be maintained between the two aspects with a caution to maintain less receivables for the hygiene of industry.
Cash

Cash, the most liquid asset, is of vital importance to the daily operations of business firms. It is both a means and an end of business enterprises. In a financial sense, the term ‘cash’ refers to all money items and sources that are immediately available to help pay a firm’s bill. Cash includes over and above what is kept in the hand, is in the form of bank accounts, demand deposits, call loans and time deposits etc.

Cash management must aim to reduce the required level of cash but minimize the risk of being unable to discharge claims against the company as they arise. Therefore, the firm should maintain on optimum cash balance which is neither small nor large. It is that balance where the liquidity and profitability goals meet and there is a trade-off between the risk and return which is associated with too small or too much of cash balance.

- **Current Liabilities**

  - **Bank Borrowings**

    Bank loans are conventionally treated as current. The loans may be in the form of cash credit, bills or overdrafts. Bank loans against mortgage are usually for longer period than that of one year. Banks allow the practice of rolling over of loans by renewal. So, before final inclusion of bank loans as short term, the nature of contract and fluctuations are to be scrutinized.

  - **Trade Creditors**

    This is an important component of current liability. Outstanding accounts of the suppliers comprise trade credit. Raw materials are usually purchased on credit. However, the amount of trade credit is governed mainly by the degree of competition and usage of the trade.

  - **Other Current Liabilities**

    This item comprises all sort of short term obligations which are not bank loans or trade credits. They include the following:
1. **Accrued Expenses**

   Accrued expenses are those which have been incurred but not paid. These are short term liabilities.

2. **Proposed Dividends**

   Proposed dividend is declared at the time of Annual General Meeting of a company. When the dividend is declared, it becomes liability of the company. Till the period of payment of declared dividend, the same is treated as current liability.

3. **Tax Provision**

   Any tax which is due for payment within a period of one year is a current liability.

   The above discussion on the various components of working capital reveals that current assets are not the only components which count in the framing of the structure of working capital. On the Liabilities side, the arrangements in connection with bank borrowings are important and also the arrangements made from time to time with creditors are equally vital. Together with these, the handling of unpaid dividends and assessed tax is also crucial. The focus of arrangement is therefore restricted to the handling of current assets.

**Need for Working Capital:**

The need for gross working capital or current assets to run the day-to-day business activities cannot be over emphasized. The objective of financial decision making is to maximize the shareholder’s wealth. To active this, it is necessary to generate sufficient profits. The extent to which profits can be earned will naturally depend upon the magnitude of sales, among other things. A successful sales programme is, in other words, necessary for earning profit by a business enterprise. However, sales do not convert into cash instantly. There is invariably a time-lag between the sale of goods and the receipt of cash. Thus there is a need for working capital in the form of current assets to deal with the problem arising out of the lack of immediate realization of
cash against goods sold. Therefore, sufficient working capital is necessary to sustain sales activity. Technically, this is referred to as Operating or Cash Cycle.

The operating cycle is said to be at the heart of the need for working capital. The continuing flow from cash to supplier, to inventory, to accounts receivables and back into cash is what is called the operating cycle or cash cycle of a business. Cash cycle refers to the length of time necessary to complete the following cycle of events:

1. Conversion of cash into inventory,
2. Conversion of inventory into receivables,
3. Conversion of receivables into cash

The operating cycle can be shown diagrammatically as below:

- Working Capital Management in Indian pharmaceutical Industry

**OPERATING CYCLE**

**Fig 1.2 Operating cycle**

As can be seen in above figure, the operating cycle, which is a continuous process, consists of three phases. In phase-I, cash gets converted into inventory. It would include purchase of raw materials, conversion of raw materials into work-in-progress, finished goods and terminate in the transfer of goods to stock at the end of the manufacturing process. In phase-II of the cycle, the inventory is converted into...
receivables as credit sales are made to customers. The last phase represents the phase when receivables are collected. This phase completes the operating cycle.

Length of the Operating Cycle:-

The length of the operating cycle of a manufacturing firm is determined by making the sum of

1. Inventory Conversion Period and
2. Book Debts Conversion Period.

The inventory conversion period is the total time needed for producing and selling the product. Typically, it included A. Raw Material Conversion Period (RMCP), B. Work-In-Process Conversion Period (WIPCP) and C. Finished Goods Conversion Period (FGCP). The book debt conversion period is the time required to collect outstanding amount from customers. The total of the inventory conversion period and book debt conversion period is sometimes referred to as Gross Operating Cycle (GOC). However, the difference between the gross operating cycle and payables deferral period is Net Operating Cycle (NOC). The following formula can be used for this purpose:

1. Inventory Conversion Period = the sum of A, B and C given below:

A. Raw Material Conversion Period (RMCP) =
\[
\frac{\text{Raw material inventory}}{\text{Raw material consumption}} \times 360
\]

B. Work-In-Process Conversion Period (WIPCP) =
\[
\frac{\text{Work-in-process inventory}}{\text{Cost of production}} \times 360
\]

C. Finished Goods Conversion Period (WIPCP) =
\[
\frac{\text{Finished goods inventory}}{\text{Cost of goods sold}} \times 360
\]
2. Book-debt Conversion Period (BDCP) =  
   
   \( \text{Book debt/Credit Sales [at cost]} \times \frac{360}{\text{Credit Sales [at cost]}} \)

3. Payable Deferral Period (PDP) =  
   
   \( \text{Creditors/Credit purchase} \times \frac{360}{\text{Credit purchase}} \)

Note: The depreciation and profit should be excluded in the computations of operating cycle since our concern is with cash flows associated with conversion at cost. Also in the above calculations, average figures may be used.

**Factors Affecting the need for Working Capital:**

The working capital needs of a firm are influenced by numerous factors. The important ones are:

- **Nature of Business**

  The working capital requirement of a firm closely relates to the nature of its business. Generally a service firm like Electricity Undertaking or Transport Corporation, which has a short-operating cycle and which sells predominately on cash basis, has a modest working capital requirement. On the other hand, trading and financial firms require less investment in fixed assets but have to invest large amount in current assets like inventories, receivables and cash; as such they need relatively very large amount of working capital; whereas a manufacturing concern like a Machine Tool Unit which has a long operating cycle and which sells largely on credit, requires sizable working capital between the above two extremes.

- **Volume of Sales**

  This is the most important factor affecting the size and components of working capital. A firm maintains current assets because they are needed to support the operational activities that culminate in sales. Over time, a firm will keep a fairly steady
ratio of current assets to annual sales. Normally, this ratio will be between 20 and 40 percent. This means that a firm realizing constant level of sales will operate with a fairly constant level of cash receivables and inventory, if properly managed. Firms experiencing growth in sales require additional permanent working capital. If sales are declining, a reduction in permanent working capital would be expected.

- **Seasonal Variations**

  In certain industries like Sugar, Cold Storage and Ice Mills, etc., raw material is not available throughout the year. They have to buy raw materials in bulk during the season to ensure an uninterrupted flow and to process them during the entire year. A huge amount is, thus, blocked in the form of material inventories during such season, which gives rise to more working capital requirements. Generally, during busy season, a firm requires large working capital than in the slack season.

  Again, in case of some seasonal industries, raw materials have to be procured throughout the year, but the production is carried on only during a particular part of the year. This characteristic affects the requirement for working capital. In case of the public utility undertakings like Transport Undertakings, Electricity Undertakings, etc., the required amount of working capital as a portion of total assets is small in volume.

- **Production Policy**

  A firm marked by pronounced seasonal fluctuation in its sales may pursue a production policy which may reduce the sharp variations in working capital requirements. For example, a manufacturer of Ceiling Fans may maintain a steady production throughout the year with a view to meet high demand during the peak season rather than intensify the production activity during the peak business season. Such a production policy may dampen the fluctuations in working capital requirements.

- **Length of Production and Operating Cycle**

  In a manufacturing concern, Production Cycle covers the time span between the procurement of raw materials and completion of manufacturing process leading to the production of finished goods; whereas, Operating Cycle covers the time span between the
procurement of raw materials and realization of cash from the sale of finished goods, the output of the manufacturing process. In case of both production and operating cycle, the longer the time span, the larger will be the funds tied up and therefore the larger the working capital needed and vice versa. For example, a Distillery, which has an ageing process, has generally to make a relatively heavy investment in inventory and thus requires more working capital. The other extreme is provided by a Bakery, which sells its product at short intervals and therefore, requires less working capital.

- **Credit Policy**

  The credit policy of a concern in its dealing with debtors and creditors influences considerably the requirement of working capital. A concern that purchases its requirements on credit and sells its product/service on cash requires less amount of working capital. On the other hand, a concern buying its requirements for cash and allowing credit to its customers, shall need larger amount of working capital as very huge amount of funds are bound to be tied up in debtors.

- **Growth and Expansion**

  As a company grows, it is logical to expect that a larger amount of working capital will be required. It is, of course, difficult to determine precisely the relationship between the growth in the volume of business of a company and the increase in its working capital. The composition of working capital in a going company also shifts with economic circumstances and corporate practices. Other thing being equal, growing industries require more working capital than those that are static.

- **Business Cycle**

  It refers to the alternate expansion and contraction in general business activities. In a period of boom, a concern needs more working capital due to increase in sales, rise in price, optimistic expansion of business etc. On the other hand, during the period of depression, sales declines and business contracts, therefore, working capital requirements also decrease.
- **Price Level Changes**

  Changes in price level also affect the working capital requirements of a firm as the rising price level requires more working capital to maintain the same level of current assets. The effect of rising prices may be different from firm to firm; some may be affected much while some may not be affected at all by it.

- **Dividend Policy**

  Maintaining a firm dividend policy with minimum percentage of dividend distribution on capital is an anathema in condition of working capital shortage. Some firm have foregone dividends to strengthen their working capital.

  The preceding discussion shows that the level of working capital is influenced by a wide variety of factors which are partly internal and partly external to the firm. Efficient Working Capital Management requires effective planning and a constant review of the needs for an appropriate working capital strategy.

**Advantages of Adequate Working Capital:**

Working capital is the life blood and nerve centre of a business. No business can run successfully without an adequate amount of working capital. Therefore, a concern should have sufficient working capital to conduct its business on the most economical basis and without financial stringency and to meet emergencies and losses without danger of financial disaster. The main advantages of adequate working capital are given below:

1. A concern having adequate working capital can exploit favourable market conditions by purchasing its raw material requirement in bulk with lower price. Therefore, an uninterrupted production process can be continued which invariably helps in maintaining the solvency of the business.
2. A concern having adequate working capital, high solvency and good credit standing can arrange loans from bank and others on easy and favourable items.
3. Sufficient working capital enables a concern to make prompt payments as and when the current obligations mature. The concern can make regular payment of salaries, wages and other day-to-day expenses in time. Even quick and regular return on investment can be made due to high liquidity of the concern.

4. Adequate working capital creates an environment of security, confidence and high morale, and creates overall efficiency in a business.

**Dangers of Excess or Inadequate Working Capital:-**

Every business concern should have enough and adequate working capital to run its business operations in a smooth and uninterrupted manner. Both excessive and inadequate working capital positions are always undesirable because they are dangerous from the firm’s point of view. Excessive working capital means idle fund which earns no profits for the firm. Inadequate working capital not only leads to impair firm’s profitability but also results in production interruption and inefficiencies.

The dangers caused by the excessive working capital are as follows:

1. It results in unnecessary accumulation of inventories. Thus, the chances of inventory mishandling, waste, theft and losses increases.

2. It is clear indication of defective credit polity and slack collection period. Consequently higher incidence of bad debts may result which adversely affects profits.

3. Excessive working capital makes management complacent which degenerates into managerial inefficiency.

4. Tendencies of accumulating inventories to make speculative profits grow. This may tend to make dividend polity liberal and difficult to cope with in future when the firm is unable to make speculative profits.

Inadequacy or paucity of working capital is also bad and has the following dangers:
1. It hinders growth. It becomes difficult for the firm to undertake profitable projects for non-availability of the working capital funds.
2. It becomes difficult to implement operating plans and to achieve the firm’s profit target.
3. Operating inefficiencies creep in when it becomes difficult even to meet day-to-day commitments.
4. Fixed assets are not efficiently utilized for the lack of working funds. Thus, the rate of return on investment slumps.
5. Paucity of working capital funds renders the firm unable to avail attractive credit opportunities etc.
6. The firm loses its reputation when it is not in a position to honour its short term obligations. As a result, the firm faces tight credit terms.

An enlightened management should, therefore, maintain a right amount of working capital on a continuous basis; only then a proper functioning of the business operation will be ensured. Sound financial and statistical techniques supported by an effective judgment should be used to predict the quantum of working capital needed at different time period.

**Sources of Working Capital:**

Virtually, all firms invest in working capital and therefore, must finance such investments. As already discussed, the working capital need of a concern can be classified into two parts. First, permanent or fixed working capital requirements and Second, temporary or variable working capital requirements. Hence, for need based funding, one must recognize the fixed need for working capital, which is more or less long-term in nature and the fluctuating or seasonal need for working capital, which is short-term in nature. The funding should also be so done that long term uses or needs of the working capital are financed from long-term sources and short-term uses of the working capital are financed from short-term sources of capital. The details regarding these two sources are given below:
1. **Long-Term Sources of Working Capital:**

The long-term working capital requirements include the initial and the regular working capital. Along with it, the minimum level of investment in various current assets also determines the requirement of long-term working capital. This capital can be conveniently financed by the following sources:

**A. Share Capital**

A part of long-term working capital can be financed with the share capital. Generally the company issues both preference and equity shares for raising the long-term capital. Preference shares carry preferential rights in respect of dividend at a fixed rate and in regard to the repayment of capital at the time of winding up of the company. Whereas, equity shares do not have any fixed commitment chargers and dividend on these shares is to be paid subject to the availability of sufficient profit.

**B. Debentures**

A debenture is an instrument issued by the company acknowledging its debt to its holder. The debenture holders are the creditors of the company. A fixed rate of interest is paid on debentures. These are also an important source of long-term working capital because, they are fixed cost sources. The debentures may be of various kinds such as Simple, Naked or Unsecured Debentures, Secured or Mortgage Debentures, Redeemable and Irredeemable Debentures, Convertible and Non-Convertible Debentures, etc.

**C. Ploughing Back of Profits**

A part of the earned profits may be ploughed back by the firm in meeting their working capital requirements. It is a regular and cheapest source of working capital as it does not involve any explicit cost of capital.

**D. Sale of Fixed Assets**

The idle fixed assets of the concern, if any, can be sold out and sale proceeds can be utilized for financing the working capital requirements.
E. Term Loans

The loans rose for a period varying from 3 to 5 or 7 years are also important source of working capital. This type of finance is ordinarily repayable in installments. Such loans usually increase the working capital of the enterprise.

2. Short-Term Sources of Working Capital:

This category of funds covers the need of working capital for financing day-to-day business requirement. Normally, the duration of such requirements does not exceed beyond a year. The short-term sources of working capital may be internal as well as external.

A. Internal Sources

I. Depreciation Funds

The Depreciation funds constitute important source of short-term working capital.

II. Provision for Taxation

The provision for taxation can also be used by the companies as a source of working capital during the intermittent period.

III. Accrued Expenses

The firm can postpone the payment of expenses for short periods; hence more accrued expenses also constitute an important source of working capital.

B. External Sources

I. Trade Credit

One of the most important sources of short-term finance is the trade credit extended by one business enterprise. The use of trade credit has increased in recent years due to mainly perhaps to the credit squeeze. The trade credit may
also assume three forms; purchase an open account, purchasing of furnishing a prorate for specified period and purchase a trade acceptance.

II. Bank Credit

Commercial banks are also principal source of working capital. They provide working capital in a number of ways such as overdrafts, cash credit, line of credit, short-term loans etc., Compared with other methods of borrowing, this is the most flexible source, because when the debt is no longer required it can be quickly and easily reduced. It is also comparatively cheap.

III. Credit Papers

In the category of credit papers, bills of exchange and promissory notes of shorter duration between a month and six months are used. These papers are discounted with a bank, and varying capital can be arranged. Accommodation bills are an important method of such finance.

IV. Public Deposits

Public deposits are also an important source of short-term and medium-term finance. Due to shortage of bank credit in recent past, the importance of public deposits has increased.

V. Customer’s Credit

Advances may also be obtained on contract entered into by enterprise. The customers are often asked to make some advance payments in cash in lieu of the contract purchase. Such advance can be utilized in purchasing raw materials, paying wages and so on.

VI. Govt. Assistance

Some time central and state Govt. also provide short-term finance on easy terms.
VII. Loans from Directors

An enterprise can also obtain loans from its officers, directors, etc. These loans are often obtained at almost negligible rates of interest. Sometimes no interest is charged on them. Loans can also be obtained from other fellow companies working within the same group.

VIII. Security of Employees

If employees are required to make deposits with their employer’s companies, such companies utilize those amounts on meeting their working capital needs.

IX. Factoring

It involves raising funds on the security of the company debts so that cash is received earlier than if the company waited for the debtors to pay. Thus the factors help in improving the company’s liquidity position. But this finance is not cheap in comparison to bank credits, etc.

Conclusion

The administration of Working Capital determines to a large extent the success or failure of the operations of business. At times in the event of failure of such administration due to shortage of Working Capital or excess of working capital, the stability of the concerns dwindles. So, proper management of working capital is essential for the success of business.