

FACULTY OF COMMERCE AND MANAGEMENT

COURSE: MBA III SEM..

SUBJECT: WORKING CAPITAL MANAGEMENT

SUBJECT CODE: MBAFM01

LECTURE: 10

NAME OF FACULTY: DR. PALASH BAIRAGI

LECTURE-10



Determinants of Working Capital

There are numerous factors which affect the working capital requirements of a concern. An efficiency appraisal of these factors assists the management in formulating sound working capital policies and estimating its requirements rightly. As there occur continuous variations in economic environment, it is a very delicate exercise to decide the level of current assets required at a time, after making due adjustments for changes that have taken place. Though it is difficult to quantify the influence of each of the factors affecting working capital, one can appreciate their significance. Realizing the complications involved in working capital estimates, Gerstenberg observes, "Although no definite rule can be established for determining working capital requirements, we can arrive at some general principles. Certain influences, some inherent in the nature of the business and the others arising out of business management policies, affect each of the items of current capital."

The amount of working capital required depends upon a large number of factors and each factor has its own importance. In order to determine the proper amount of working capital of a firm, the following factors should be considered carefully:

	Nature of enterprise
	Size of business
	Access to money market
	Expansion and growth of
	business Profit margin and
	dividend policy-Depreciation
	1
	policy
	Operating efficiency of firm
	Co-ordination activities of
	firm Technological
	Development Environment
	Factors
	Taxation Policy
	Seasonal nature of the business
	Terms of purchase and
	sale Business cycles
	Working capital
	turnover Production
	policy-Working-capital
	cycle Price level changes
	Market Conditions
	Conditions of Supply
	Cash Requirements
	Volumes of Sales
	Inventory Turnovers
	Receivables Turnover
	Attitude of Risk
	Demand of Industry
	Value of Current
	Assets Credit Control