

Types of working capital

Working capital is that part of capital which is required for meeting the operating cost of the organisation. It is always available in the form of current assets. This part of capital is needed to purchase raw materials, semi finished goods in the case of manufacturing concern and finished goods in the case of trading concern. It is required for meeting day to day and running expenditure of the business enterprise. The duration of this working capital is one year. This part of capital is generally obtained from long term and short term sources. The amount of this capital goes to vary time to time but in some cases it is found stable on regular basis. The main components of working capital are current assets and current liabilities. Current assets are those assets which are available in the form of cash and which are convertible into cash within one accounting year. These are cash in hand, cash at Bank, debtors, bills receivable, short term investment, prepaid expenses, outstanding and accrued income, closing stock of raw materials, work in progress and finished goods etc. Current liabilities are those liabilities which are payable within one year such as creditors, bills payable, Bank OD, outstanding expenses, income received in advance and other short-term obligations. Thus, working capital is mainly found in the form of current assets and is exclusively used in meeting the cost of operating activities of any business enterprise. So far types of working capital is concerned it has been classified from different ways:

(A) On the basis of Concept :

i) Gross working capital

(ii) Net working capital

(B) On the basis of time

(i) Permanent or Fixed working capital

(ii) Temporary or Variable working capital

Permanent working capital is of the two different types : Regular working capital and Reserve working capital. Variable working capital is also of the two different types: Seasonal working capital and Special working capital.

Now we shall discuss one by one;

(1) Gross working capital : This working capital refers to the amount of total current assets. It means that the amount which is involved in maintaining the current assets of any business enterprise is known as gross working capital. It is also known as the financial aspect of working capital.

(2) Net working capital: This refers to the amount of current assets over current liabilities. Thus, net working capital is the difference between current assets and current liabilities. It is called accounting concept of working capital.

(3) Fixed working capital: This refers to the amount of working capital which is permanently involved in maintaining the current assets in any business enterprise. Every business firm is bound to maintain the minimum level of cash, inventory and receivables in which a certain amount of working capital is involved on regular and permanent basis. This is mainly based on this concept that the availability of cash at certain level is must for every organisation to meet any urgency or emergencies at any time .It means that every organisation wants to keep a certain amount of cash available all the time which is required to maintain its Goodwill or reputation as well as the liquidity during the period. Similarly, keeping the stock of raw materials and semi finished goods is must for ensuring smooth functioning of the production activities of any business enterprise. In the same way, keeping a stock of finished goods is equally important for ensuring a regular demand and supply and maintaining the stability in the price of the product. When a concern provides credit facility to the customer it creates receivables and realisation of credit sale cent percent by the end of the accounting year is not possible .Hence, a certain amount is also involved in maintaining the receivables. Thus, we find that a portion of working capital is seen to be involved on regular basis in maintaining the level of cash, inventory and receivables and this is known as permanent or fixed working capital as this part of capital is permanently blocked in current assets.

This permanent working capital can be further classified as regular and reserve working capital

Regular working capital goes to ensure circulation of current assets from cash to inventory from inventory to receivables and from receivables to cash and so on. Thus, this working capital is involved in maintaining operating cycle in any business enterprise.

Reserve working capital is the excess amount over the requirement for regular working capital which may be provided for contingencies that may arise at an stated periods such as strikes, rise in prices, depression etc.

(4) Temporary or variable working capital: This capital is generally required for purchasing raw material, semi finished goods and finished goods as well as for meeting the different expenses incurred on daily and regular basis. This part of capital goes to vary as per the level of production and other trading a scale which is never fixed. This part of capital is directly linked with the demand and supply situation of the market. Thus, this working capital is required to meet the seasonal demand Sunday special exigencies. It can also be classified into two categories:

(I) Seasonal working capital: This capital is generally required to meet the seasonal needs of the enterprise .It is generally seen that in a particular season ,the amount of working capital is exclusively required to meet the additional demand of the market which is not required when season is over. It means that in a busy season, the requirement of working capital is more and this part of capital is not required in off season .Hence, the additional capital which is required in a particular season is known as seasonal capital.

(II) Special working capital is that part which is required to meet special exigencies such as launching of extensive marketing campaign for conducting research etc. This part of capital is exclusively earmarked for particular program of the business enterprise.