CONTENTS

About the author	PAGE I-5
Preface Preface	I-7
Chapter-heads	<i>I-9</i>
PART I: WORKING CAPITAL: PLANNING AND ESTIMATION	ON
1 WORKING CAPITAL: INTRODUCTION	
◆ Working Capital Flow	4
◆ Current assets	4
◆ Types and concepts of working capital	5
Gross and net working capital	6
◆ Permanent and temporary working capital	6
◆ Factors Determining Working Capital Requirement	7
◆ Need for Adequate Working Capital	8
◆ Working Capital : Policy and Management	9
◆ Determining the Ratio of Current Assets to Sales	9
◆ Liquidity <i>vs.</i> Profitability : A Risk-return Trade-off	10
◆ Financing of Current Assets	12
◆ Hedging Approach (HA) <i>versus</i> Conservative Approach (CA)	14
◆ Conservative Approach <i>versus</i> Aggressive Approach	15
◆ Optimal Working Capital Policy	15
◆ Working Capital : Monitoring and Control	16
Points to Remember	17
Graded Illustrations	17
Objective Type Questions	18
Multiple Choice Questions	19
Assignments	21
2 WORKING CAPITAL : OPERATING CYCLE	
◆ Operating Cycle	24
◆ Operating Cycle Period	24
Points to Remember	27
Graded Illustrations	27
Objective Type Questions	30
Multiple Choice Questions	31
Assignments	32
Problems	32

I-12 CONTENTS

	PAGE	
3 WORKING CAPITAL: ESTIMATION AND CALCULATION		
◆ Estimation Process	36	
◆ Working Capital as a Percentage of Net Sales		
◆ Working Capital as a Percentage of Total Assets or Fixed Assets	36	
◆ Working Capital Based on Operating Cycle	37	
◆ Double Shift Working	39	
Points to Remember	40	
Graded Illustrations	40	
Assignments	50	
Multiple Choice Questions	50	
Problems	51	
PART II: MEASUREMENT AND ANALYSIS OF LIQUIDITY		
4 MEASURING LIQUIDITY: RATIO ANALYSIS		
◆ Factors affecting Liquidity	58	
◆ Measurement of Liquidity	58	
◆ Ratio Analysis (RA) for Measuring Liquidity	58	
◆ The Liquidity Ratios	59	
◆ The Activity Ratios	62	
◆ Evaluation of Ratios Analysis (RA)	68	
Points to Remember	68	
Graded Illustrations	69	
Objective Type Questions Multiple Chains Ougstions	75 76	
Multiple Choice Questions Assignments	77	
Problems	77	
5 WORKING CAPITAL FLOW: FUNDS FLOW STATEMENT		
◆ Statement of Change in Financial Position (SCFP)	80	
◆ SCFP (Working Capital Basis): Funds Flow Statement (FFS)	80	
◆ Preparation of the Funds Flow Statement (FFS)	82	
◆ Funds From Operations (FFO)	84	
◆ Calculation of FFO	85	
Points to Remember	91	
Graded Illustrations on Funds Flow Statement	91	
Objective Type Questions	106	
Multiple Choice Questions	106	
Assignments	107	
Problems	107	
6 ANALYSING LIQUIDITY FLOW: CASH FLOW STATEMENT		
◆ Cash Flow Statement	112	
◆ Importance and Relevance of the CFS	112	

CONTENTS I-13

	PAGE
◆ Preparation of CFS	112
◆ Definitions	112
◆ Classification of Cash Flows	112
◆ Direct and indirect methods of CFS	114
◆ Basic Information for Preparation of CFS	115
◆ CFS and Income Statement	115
◆ Step by Step Procedure to Prepare CFS	116
◆ Evaluation of SCFP	118
Points to Remember	119
Graded Illustrations in Cash Flow Statement	119
Objective Type Questions	128
Multiple Choice Questions	128
Assignments	129
Problems	130
PART III: CURRENT ASSETS MANAGEMENT	
MANAGEMENT OF CASH AND MARKETABLE SECURIT	TIES
◆ Motives for Holding Cash	137
◆ Cash Management: Theoretical Framework	138
◆ Cash Management: Planning Aspects	139
◆ Cash Management: Control Aspects	143
◆ Managing the Float	144
◆ Electronic Fund Transfer	146
◆ Managing surplus and shortage of cash	147
◆ Optimum Cash Balance : A few Models	147
◆ Management of Marketable Securities	150
Points to Remember	152
Graded Illustrations on Cash Budget	152
Graded Problems on Cash Management	166
Objective Type Questions	169
Multiple Choice Questions	170
Assignments	171
Problems	172
9	
8 RECEIVABLES MANAGEMENT	
◆ Costs of Receivables	176
◆ Benefits of Receivables	177
◆ Credit Policy	178
◆ Credit Evaluation	179
◆ Handing the Receivables	180
◆ Control of Receivables	181
◆ Size of Investment in Receivables	183
◆ Factoring and Receivables Management	183
◆ Benefits and Costs of Factoring	184
◆ Types of Factoring	185
◆ Factoring in India	185

I-14 CONTENTS

	PAGE			
◆ Forfaiting	185			
◆ Evaluation of Credit Policies				
Points to Remember				
Graded Illustrations	188			
Objective Type Questions	200			
Multiple Choice Questions	200			
Assignments	202			
Problems	203			
9 INVENTORY MANAGEMENT				
◆ Types of Inventories	200			
◆ Inventory Management	200			
◆ Techniques of Inventory Management	209			
◆ Just-In-Time Inventory (JIT)	210			
◆ Vender Managed Inventory (VMI)	210			
◆ Risk in Inventory Management	210			
◆ Valuation of Inventories	217			
◆ Difference between Periodic and Perpetual Inventory Systems	217			
◆ Methods of Inventory Valuation	218			
Points to Remember	22.			
Graded Illustrations	22.			
Objective Type Questions	23.			
Multiple Choice Questions	23.			
Assignments	233			
Problems	233			
PART IV: WORKING CAPITAL FINANCING				
10 FINANCING OF WORKING CAPITAL AND THE BANKING POLICY				
◆ Spontaneous Sources	240			
◆ Commercial Papers	243			
◆ Bank Credit for Working Capital	244			
◆ Other Sources	240			
◆ Credit Rating of Short-term Debt Instruments	247			
◆ Regulation of Bank Finance in India	247			
Evaluation of working capital loan application by Banks	25.			
Points to Remember	252			
Graded Illustrations	253			
Objective Type Questions	250			
Multiple Choice Questions	250			
Assignments	257			
Problems	258			
PART V : CASE STUDIES IN WORKING CAPITAL MANAGEM				
Case I : Okara Foods & Beverages Ltd.	261			
Case II : Indo-Swiss Watches Ltd.	262			

CONTENTS	I-15
CONTENTO	1 10

			PAGE
Case III	:	Aeron Adventures Ltd.	264
Case IV	:	Price Waterhouse Consultancy and Allied Services	265
Case V	:	Dataware Computer Ltd.	267
Case VI	:	Kamat Engineering Works Ltd.	269
Case VII	:	Viptanu Housing Infrastructure Ltd.	270
Case VII	[:	Good Apparels Ltd.	271