

**DR. UTTAM KUMAR**

**DEPARTMENT OF COMMERCE**

**Class -UG Fourth Semester**

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**Paper -MJC-5**

**Subject -Business Finance**

**Mob -8210561032**

*"Education is the power for being a good human being"*





#### Illustration 4

From the particulars given below, you are required to calculate the Working Capital Requirements :

**(a) Expenses :**

	₹
Wages	52,000 p.a.
Materials and Stores	9,600 p.a.
Office Salaries	12,480 p.a.
Rent	2,000 p.a.
Other Expenses	9,600 p.a.

**(b) Average Amount of Stocks to be Maintained :**

Stock of Finished Goods	1,000
Stock of Materials and Stores	1,600

**(c) Expenses paid in Advance :**

Quarterly Advance	1,600 p.a.
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**(d) Sales :**

Home Market	62,400 p.a.
Foreign Market	15,600 p.a.

**(e) Lag in Payment of Expenses :**

Wages	$1\frac{1}{2}$ weeks
Materials and Stores	$1\frac{1}{2}$ months
Office Salaries	$\frac{1}{2}$ month
Rent	6 months
Other Expenses	$1\frac{1}{2}$ months

**(f) Credit allowed to Customers :**

Home Market	6 weeks
Foreign Market	$1\frac{1}{2}$ weeks

#### Solution

**Statement showing Working Capital Requirement**

**Current Assets :**

	₹
Stock of Materials and Stores	1,600
Stock of Finished Goods	1,000
Expenses paid in advance $1,000 \times \frac{3}{12}$	400

**Debtors :**

Home Market (6 weeks) : $62,400 \times \frac{6}{52}$	7,200
Foreign Market $\left(1\frac{1}{2} \text{ weeks}\right)$ : $15,600 \times \frac{3}{2} \times \frac{1}{52}$	450
	<u>10,650</u>

**Less : Current Liabilities :**

	₹
Creditors for Materials and Stores $\left(1\frac{1}{2} \text{ months}\right)$ : $9,600 \times \frac{3}{24}$	1,200

**Creditors for Expenses :**

Wages	$52,000 \times \frac{3}{104}$	1,500
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Office Salaries	$12,480 \times \frac{1}{24}$	520	
Rent	$2,000 \times \frac{6}{12}$	1,000	
Other Expenses	$9,600 \times \frac{3}{24}$	<u>1,200</u>	5,420
	Working Capital Required		<u><u>5,230</u></u>