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L-19 B.C.A → I Year 2 Sem  
SUBJECT → FAM  
TOPIC → Factor  
Determining W.C Requirement

### Factor Determining W.C Requirement

Following are important factors generally influencing the W.C requirement.

#### Basic Nature of Business.

The working capital is closely related to the nature of the business of the firm. In case of retail shop or a trading firm, the amount of working capital required is small enough.

#### Business Cycle.

Different phases of business cycle i.e boom, recession, etc, also affect the working capital requirement.

#### Seasonal operations.

If a firm is operating in goods and services having seasonal fluctuation in demand then the working capital requirement will also fluctuate with every change.

## Marketing Competitiveness.

In the view of Competitive Conditions in the market, the firm may have to offer the credit policy to customers even larger stock may be maintained to serve an order otherwise the customer may go to other supplier.

## Credit policy.

A firm has to interact with two types of credit policies at a time. on the credit policy of the suppliers of raw materials, goods etc.

## Supply Conditions.

The time taken by a supplier of raw materials, goods etc. after placing an order, also determines the working capital requirement.

## Length of Production Cycle.

In manufacturing business, the requirement of working capital increase in direct proportion to length of manufacturing process.

## operating cycle.

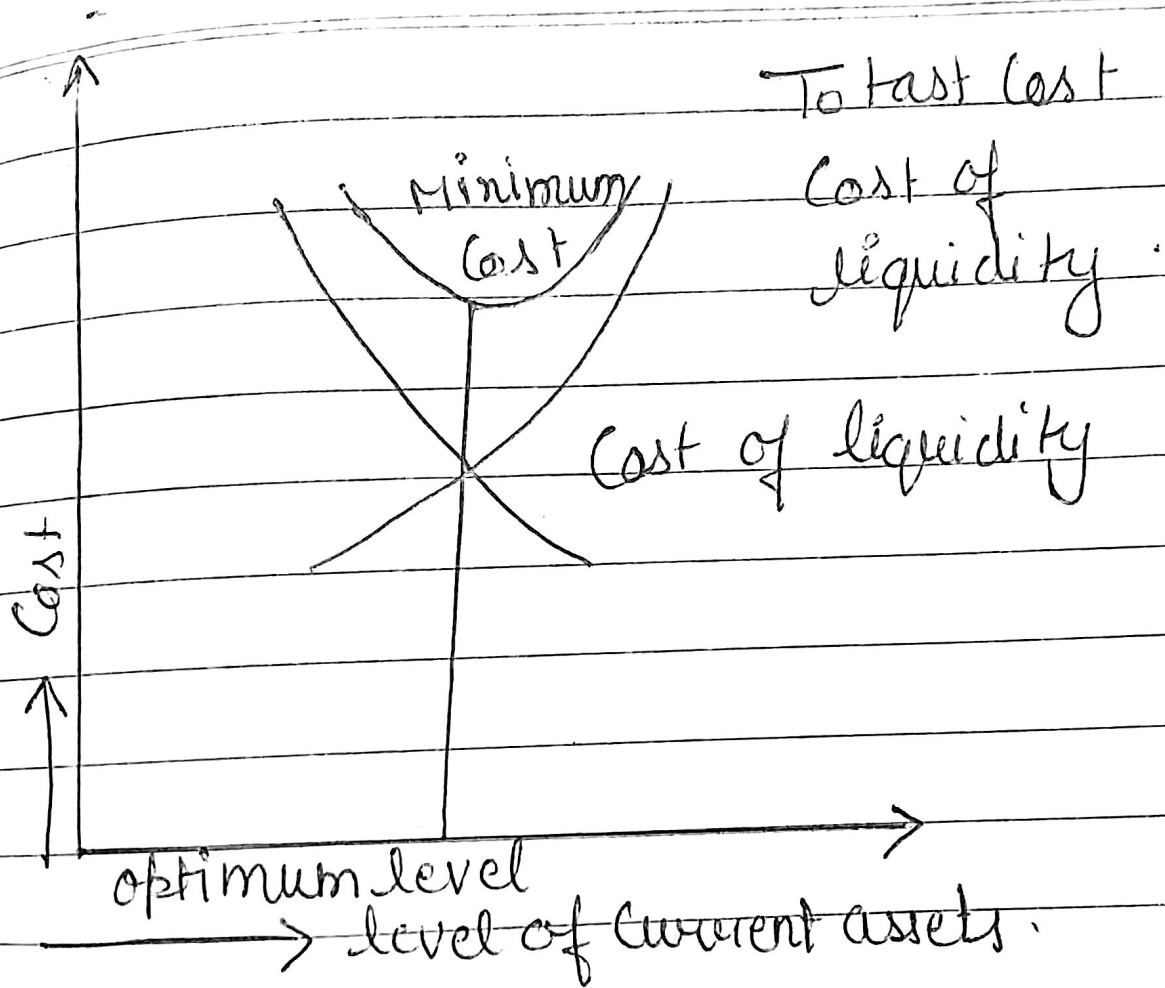
In a concern, the working capital cycle or operating cycle starts with the purchase of raw material and ends with realization of cash from the sale of finished products.

## Profitability - liquidity trade off.

The risk-return trade off involved in managing the firm's working capital is a trade off between the firm's liquidity and its profitability. By maintaining a large investment in current assets like cash, inventory etc. The firm reduces the chances of -

1.) Production stoppage and lost sales from inventory shortages.

2.) The inability to pay the creditors on time.



W.C Management policies