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DEPARTMENT OF COMMERCE

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Paper -MJC-5

Subject -Business Finance

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*"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
Materials and Stores
Office Salaries
Rent
Other Expenses

₹
52,000 p.a.
9,600 p.a.
12,480 p.a.
2,000 p.a.
9,600 p.a.

(b) Average Amount of Stocks to be Maintained :

Stock of Finished Goods
Stock of Materials and Stores

1,000
1,600

(c) Expenses paid in Advance :

Quarterly Advance

1,600 p.a.

(d) Sales :

Home Market
Foreign Market

62,400 p.a.
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
Stock of Finished Goods

₹
1,600
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 ($1\frac{1}{2}$ weeks) : $15,600 \times \frac{3}{2} \times \frac{1}{52}$

450

Less : Current Liabilities :

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

₹

1,200

Creditors for Expenses :

Wages

$52,000 \times \frac{3}{104}$

1,500

10,650

Office Salaries

$$12,480 \times \frac{1}{24}$$

520

Rent

$$2,000 \times \frac{6}{12}$$

1,000

Other Expenses

$$9,600 \times \frac{3}{24}$$

1,200

5,420

Working Capital Required

5,230

Illustration 5

monnred production on 1st January, 2008. Cost structure is detailed