

1. reserve working
capital is the excess
amount



**ASSIGN
BUSTER**

1. Permanent or Fixed Working Capital:

Permanent or fixed working capital is the minimum amount which is required to ensure effective utilisation of fixed facilities and for maintaining the circulation of current assets. There is always a minimum level of current assets which is continuously required by the enterprise to carry out its normal business operations.

For example, every firm has to maintain a minimum level of raw materials, work-in-process, finished goods and cash balance. This minimum level of current assets is called permanent or fixed working capital as this part of capital is permanently blocked in current assets. As the business grows, the requirements of permanent working capital also increase due to the increase in current assets. The permanent working capital can further be classified as regular working capital and reserve working capital required ensuring circulation of current assets from cash to inventories, from inventories to receivables and from receivables to cash and so on. Reserve working capital is the excess amount over the requirement for regular working capital which may be provided for contingencies that may arise at unstated periods such as strikes, rise in prices, depression, etc.

2. Temporary or Variable Working Capital:

Temporary or variable working capital is the amount of working capital which is required to meet the seasonal demands and some special exigencies.

Variable working capital can be further classified as seasonal working capital and special working capital. Most of the enterprises have to provide additional working capital to meet the seasonal and special needs.

The capital required to meet the seasonal needs of the enterprise is called seasonal working capital. Special working capital is that part of working capital which is required to meet special exigencies such as launching of extensive marketing campaigns for conducting research, etc. Temporary working capital differs from permanent working capital in the sense that it is required for short periods and cannot be permanently employed gainfully in the business. Figures given below illustrate the difference between permanent and temporary working capital.

In permanent working capital is stable or fixed over time while the temporary or variable working capital fluctuates. In permanent working capital is also increasing with the passage of time due to expansion of business but even then it does not fluctuate as variable working capital which sometimes increases and sometimes decreases.