

# WORKING CAPITAL

$$= \text{CURRENT ASSETS} - \text{CURRENT LIABILITIES}$$

## What Is Working Capital?

Working capital is the difference between a company's current assets and current liabilities. It measures a company's short-term liquidity and ability to cover its day-to-day operations.

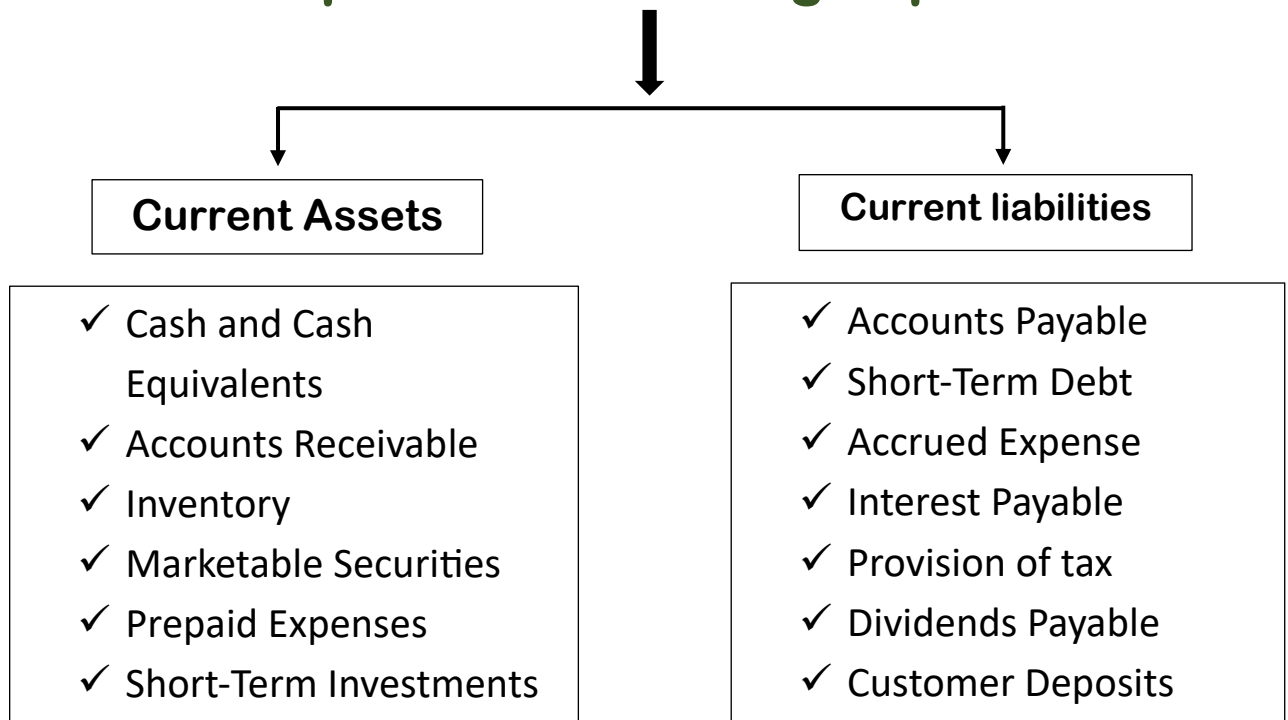
### Current Assets

Current assets are economic benefits that the company expects to receive within the next 12 months. The company has a claim or right to receive the financial benefit, and calculating working capital poses the hypothetical situation of liquidating all items below into cash.

### Current Liabilities

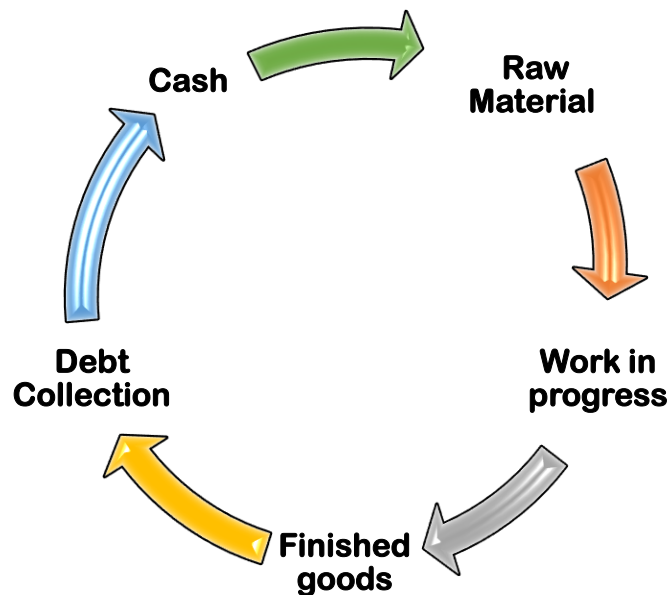
Current liabilities encompass all debts a company owes or will owe within the next 12 months. The overarching goal of working capital is to understand whether a company can cover all of these debts with the short-term assets it already has on hand.

## Components of Working Capital:



## Business Cycle of Working Capital:

The business cycle of working capital is the process of managing cash flow from buying raw materials to selling products or services and collecting payments. It includes steps like purchasing inventory, selling goods, receiving payments, and paying suppliers. A shorter cycle helps in maintaining smooth business operations.



## How to Calculate Working Capital?

Working capital measures a company's short-term financial health and liquidity.

### Steps to Calculate:

- Identify Current Assets (Cash, Accounts Receivable, Inventory, etc.).
- Identify Current Liabilities (Accounts Payable, Short-term Loans, etc.)
- $\text{Current Assets} - \text{Current Liabilities}$

## What is Estimation and Calculation of Working capital?

Working capital estimation helps determine whether a company has enough short-term assets to cover its short-term liabilities. **A positive working capital** means the company can easily meet its short-term obligations, while **a negative working capital** indicates potential financial difficulties. This estimation ensures smooth business operations and financial stability.

The worksheet for estimation of working capital requirements under the operating cycle method may be presented as follows:

### FORMAT OF WORKING CAPITAL

#### Cost Sheet

<i>Particular</i>	<i>Rate</i>
1.Raw material	
2.Labor	
3.Overheads	
<b>Total Costs</b>	
Profit	
<b>Selling Price</b>	

### CALCULATION WORKING CAPITAL

<i>Particulars</i>	<i>Amount</i>	<i>Amount</i>
<b>Current Assets:</b>		
Closing Stock of Raw Material		
Closing of work in progress		
a) Raw Material [100%]		
b) Labor [50%]		
c) Overheads [50%]		
Finished Goods		
<b>RECEIVABLE :</b>		
Debtors		
Bills receivable		
Cash [Given]		
<b>∴ Total Current Assets [A]</b>		
<b>Less: Current Liabilities</b>		
Creditors		
Outstanding Wages		
Outstanding Expenses		
<b>∴ Total Current Liabilities [B]</b>		
<b>Current assets – current liabilities [A - B]</b>		
<b>Add : safety margin</b>		
<b>NET WORKING CAPITAL</b>		