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Explain the determinants of working capital.

Working capital refers to the capital required for a company's day-to-day operations. Specifically for managing short-term assets and liabilities. Efficient management of working capital is essential for ensuring liquidity, operational efficiency, and overall financial stability.

The determinants of working capital are the factors that influence a company's working capital requirement. These determinants can be categorized into two main groups:

- * Internal Factors

- * External Factors

Internal Factors:-

Sales volume:-

An increase in a Sales volume typically leads to an increase in working Capital requirement.

Inventory Turnover.

Fasten Inventory turnover reduces working Capital requirements.

Accounts Receivable and payable policies Liberal Credit policies can increase working Capital requirement.

Operating Cycle

Longer operating cycles require more working capital

Business Growth.

Rapid growth requires more working capital to finance increased Sales and assets product mix.

Different products have varying working capital requirement

Production Technology.

improved technology can reduce working capital needs

Supply Chain management.

Efficient Supply Chain management can reduce working capital requirements.

External Factors

market conditions

Economic downturns or Seasonal fluctuations can impact working capital needs

industry Characteristics:

Different industries have unique working capital requirements

Competition.

Competitive pressures can influence working capital management

Government policies.

Tax policies, trade policies and regulatory requirements can impact working capital needs

Interest Rates

High interest rates can increase the cost of working capital

inflation.

Inflation can increase

capital & Requirements

~~working~~

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