

Assignment-11

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

Faster 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 requirements.

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 working capital requirements.

Planning