ASSIGNMENT - II

Explain the determinants of working capital

The determinants of working capital are the factors that influence the amount of funds a business needs to manage its day-to-day operations. These determinants vary depending on the nature of the business, its operating environment, and its management strategies. Key determinants include:

1. **Nature of Business:**
   Manufacturing firms typically require more working capital due to high levels of inventory and production processes; whereas service-based businesses may require less since they usually don't have significant inventory requirements.

2. **Business cycle:**
   During expansion or peak periods, businesses needs more working capital to to handle increased production and sales. In contrast, during recession periods, the need for working capital decreases.

3. **Production cycle:**
   The time taken to convert raw materials into finished goods affects working capital. Longer production cycles mean that more capital is tied up in inventories, requiring higher working capital.

4. **Market conditions:**
   In competitive markets, businesses may

have to extend more favorable credit terms to customers, thus increasing working capital requirements. Additionally, inflation and fluctuating prices also influence working capital needs.

5) Growth and Expansion:

As a business grows or expands, its working capital needs will generally increase to support higher levels of production, sales and inventory.

6) payment Terms with suppliers:

If a business can negotiate longer payment terms with suppliers, it reduces its immediate cash outflows, lowering its working capital requirements.