ASSIGNMENT - II

Explain the determinants of working capital:-

Determining of working capital management requirements.

Firm size, sales growth, Profitability, leverage, level of economic activities, operating cycle and the nature of the business.

Service manufactures

The nature & size of the business significantly influences its working capital needs. For example, a service-oriented company with minimal tangible assets/goods may demand less working capital than a retail business. This on companies salaries, raw material and maintaining inventory until Products are sold. larger manufacturing units. Producting significant monthly units. require Substantial working capital for seamless operations.

Sales and Revenue trends:-

The heart of working capital lies in the sales and revenue generated by a business. Analysing historical Sales and revenue trend helps in forecasting future cash flow and adjusting working capital requirement.

Inventory management :-

Efficient inventory management is a key determinant of working capital. Balancing optimal stock level to meet customer demand while minimizing holding cost is a delicate art. employing inventory turnover ratios and Just in time Practices can significant impact working capital positively.

Accounts Receivable:-

The speed at which a business can collect Payments from customer directly affects working capital. a streamlined accounts receivable process including effective credit management and timely invoicing ensure a steady cash inflow.

Account Payables:-

managing accounts Payable is equally crucial. Negotiating favourable credit terms with suppliers can contribute to an extended cash conversion cycle, positively impacting working capital.

Credit Policy:-

A company working capital requirements can be influenced by its credit and payments. Policies. selling goods on credit may increased the need for working capital as the time taken to receive payments from account Receivable can create an fund gap. conversely, managing Payable efficiently, like implementing a credit policy allowing retailers one month for payment, signifies efficient working capital to sustain operations during that period.

credit access:-

Business with accessible credit during financial emergencies can efficiently function with reduced working capital. This is achievable because they can readily secure short-term loans when needed. Take for example, a manufacturing company with a strong banking relationship. enabling easy access to short-term loans. This services as a secure fall back option, allowing the company to approach the bank whenever faced with financial emergencies. There by minimising the necessary working capital levels for unforseen situation.

Debt management:-

Balancing debt levels is critical for determining working capital. excessive debt can strain cash flow, while strategic debt utilisation can provide additional capital for growth. understanding the debt equity ratio and making informed financing decision is key.