

Assignment 11

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

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.

Business cycle

During expansion or peak periods, business needs more working capital to handle increased

production and sales in contract during recession period, the need for working capital decreases.

production cycle

The time taken to convert raw materials into finished goods affects working capital. longer production cycle mean that more capital is tied up investment requiring higher working capital

market conditions

In competitive markets, businesses may have to extend more favorable credit terms to customers, thus increasing working capital requirement. Additionally, inflation and fluctuating prices also influence working capital needs

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