

ASSIGNMENT II

EXPLAIN THE DETERMINANTS OF WORKING CAPITAL.
DETERMINE OF WORKING CAPITAL MANAGEMENT

SALESMAN

PROFITABILITY, LEVERAGE

FROM SIZE, SALES GROWTH, GROWING
LEVEL OF ECONOMIC ACTIVITY
THE NATURE OF THE BUSINESS

NOTES
SIZE OF BUSINESS

THE NATURE OF BUSINESS
SIGNIFICANT INFLUENCE ON WORKING CAPITAL REQ. FOR EXAMPLE
RETAIL BUSINESS MAY REQUIRE MORE INVENTORY THAN BUSINESS
BUSINESS

BUSINESS CYCLE

DURING PERIODS OF ECONOMIC EXPANSION
COMPANIES MAY NEED PRODUCTION OF GOODS.
CONVERTING DURING DOWNTURN, WORKING CAPITAL
NEEDS MAY DECREASE

SALES VOLUME

SALES USUALLY LEAD TO INCREASED
WORKING CAPITAL NEEDS FOR INVENTORY AND RECEIVABLES
CONVRSY. LOW SALES MAY REDUCE THESE REQUIREMENTS

Credit Policy

A COMPANY'S CREDIT POLICY WHICH DETERMINES
RECEIVABLE MORE EFFICIENT CREDIT TERMS MAY
LEAD TO HIGHER RECEIVABLES & THEREFORE MORE
WORKING CAPITAL

Inventory Management

EFFICIENT INVENTORY MANAGEMENT
REDUCE WORKING CAPITAL NEEDS COMPANIES MUST BE CAREFUL
HAVING ENOUGH INVENTORY TO MEET DEMAND WITHOUT
OVERSTOCKING

Seasonality

BUSINESS WITH SEASONAL SALES PATTERNS
MAY REQUIRE VARYING AMOUNT OF WORKING CAPITAL
THROUGHOUT THE YEAR NECESSitating CAREFUL PLANNING

Operational Efficiency

Efficient operations can minimize the cash conversion cycle and reduce the need for working capital.

Market conditions:

Economic conditions, competition, market demand, and working capital requirements.

Management policies

Management decisions regarding investment in reserves, dividend payments, and working capital level.

Growth

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