Explain the determinants of working capital

working capital refers to the capital required for a company's day-to-day operations specifically to managing short-term assets and liabilities. Effective management of working capital is essential for ensuring liquidity Operational efficiency, and overall financial stability.

The determinants of working capital are the factors that influences a company's working capital requires these determinants can be categorised into two main groups.

- Internal factors
- External factors.

internal factors.

Sales volumes.

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

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Operating cycle:-

Longer operating cycles require more working capital.

Business Growth:-

Rabid growth requires more working capital to finance increased sales and assets.

Product mix:-

Different products have verying working capital requirements

Production technology:-

Improved technology can reduce working capital requirements.

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 need.

Industry Characteristics:-

Different industries have unique working capital requirements

Competition:-

competitive Pressures can influence working capital management

Government Policies:-

Tax Policies trade Policies are 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 requirement