

Assignment - 11

Explain the determinants of working capital:

Firm Size, Sales growth, Profitability, Leverage, Level of Economic activities, operating cycle and the nature of the business.

Nature and Size of business:

The nature and size of a business significantly influences its working capital needs for ex: a service oriented company with minimal tangible assets/goods may demand less working capital than a retail business.

Inventory management:

Efficient Inventory management is a key determinant ^{level} of working capital. Balancing optimal stock to meet customers demand while minimizing holding cost is a delicate art. Efficient inventory turnover ratios and Just in time practices can significantly impact working capital positively.

Sales and Revenue trends:

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

~~Inventory~~ Management: Accounts Receivables:

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

Accounts Payable:

managing accounts payable to quickly obtain negotiating favourable credit terms with suppliers can contribute to an extended cash conversion cycle. Positively impacting working capital.

Credit Policy:

longer credit terms to customers. Increases working capital requirement.

Marketing conditions:

High competition or demand fluctuations increases working capital needs.

Supplier terms:

Favourable supplier credit terms reduce working capital requirement.

Debt Management:

Balancing debt covers is critical for determining working capital. Excessive debt can strain cash flow, while strategic debt utilisation can provide additional capital for growth.