

Assignment-11

Explain the determinants of Working Capital.

Working Capital is the difference between a Company's Current assets and Current Liabilities, and it's Crucial for Maintaining day to day operation. The determinants of Working Capital include.

Nature of Business

Different industries have varying working Capital needs. For example, retail business may require more inventory than service based business.

Business Cycle

During periods of economic expansion, Companies may need more working Capital to support increased Production and sales. Conversely, during downturns, Working Capital needs may decrease.

Sales Volume

Higher sales usually lead to increased working Capital needs for inventory and receivables. Conversely, low sales may reduce these requirements.

Inventory Management

Efficient inventory management can reduce working Capital needs. Companies must balance having enough inventory to meet demand without overstocking.

Seasonality

Business with seasonal sales patterns may require varying amounts of working capital throughout the year, necessitating careful planning.

Operating Efficiency

Efficient operation can minimize the cash conversion cycle, reducing the need for working capital.

Access to Financing

Companies with easier access to short term financing may operate with lower working capital since they can quickly obtain funds when needed.

Market Conditions

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

Management Policies

Management decision regarding cash reserves, dividend payouts and investment in growth can influence working capital level.