

Assignment - 11

Explain the determinants of working capital.

Nature of business :-

Different industries have varying working capital.

Needs. For example, retail business may require more inventory than service-based businesses.

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 receivable. Conversely, low sales may reduce these requirements.

Credit Policy :-

A company's credit policy affects accounts receivable. More lenient credit terms may lead to higher receivables and thus more working capital.

Inventory Management

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

Seasonality:

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

Operational Efficiency:

Efficient operations 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 the lower ~~to~~ working capital since they can quickly obtain funds when needed.

Market conditions

Economic condition, competition, and market demand can impact working capital requirement

Management Policies

management decision regarding cash resources, dividend payouts, and investment in growth can influence working capital levels.

Understanding these determinants help business manage their working capital effectively to ensure liquidity and operational efficiency.

Summary