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 operations. 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 increas working capital needs for inventory and receiveable conversly, low sales may reduce these requirment

Credit Policy:

A company's credit policy affects accounts receiveable. more lneient 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:

Business with seasonal sales patterns may require varying amount of working capital throughout the year nessiating careful planning

Operational Efficiency

Efficient operational can minimize the cash conversion cycle reducing the need for working capital market conditions:

Economic conditions. competation and market demand can impact working capital requirments

management policies

management decisions regarding cash reserves divident payouts. and investment in growth can influence working capital levels.