

## Assignment - 7.

### Define working capital

Working capital is the difference between a company's current assets and current liabilities. It represents the short-term liquidity available to a business for meeting its day-to-day operational needs. The formula for working capital is:

$$\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}$$

#### Key components:

**Current Assets:** These are assets that are expected to be converted into cash within a year. They include items like cash, accounts receivable (money owed by customers) and inventory.

**Current Liabilities:** These are obligations or debts that the company needs to settle within a year. They include accounts payable (money the company owes to suppliers), short-term loans, and accrued expenses.

Why It's important:

Working capital measures a company's liquidity, efficiency and financial health. Positive working capital indicates that a company has enough short-term assets to cover its short-term liabilities which helps ensure smooth operations. Negative working capital may signal liquidity issues unless the company has a business model that supports such as fast inventory turnover and delayed payments to suppliers.

It is crucial for ensuring that a company can continue its operations without running into cash flow problems.

*[Signature]*