

Assignment - 7

Define Working Capital

Working Capital, also known as ^{amount needed to be fund the day to day} net working capital (NWC), is the difference between a company's current assets like cash, accounts receivable / customer's unpaid bills and inventories of raw materials and finished goods and its ~~Current Liabilities~~ such as accounts payable and debts.

Understanding Working Capital.

Working Capital is calculated from the assets and liabilities on a corporate balance sheet, focusing on immediate debts and the most liquid assets.

Calculating working capital provides insight into a company's short-term liquidity and efficiency.

Working Capital Formula.

perlin

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

Positive Vs Negative Working Capital

⇒ This calculation is positive, it indicates that the company's current assets exceed its current liabilities.

⇒ This calculation is negative, the company's current assets are ~~insufficient~~ insufficient to cover its current liabilities.

Components of Working Capital.

★ Current Asset.

★ Current Liabilities.

Current Asset.

Current Asset are economic benefits that the company expects to receive within the next 12 months.

eg:-

Cash and Cash Equivalents,
Inventory, Account Receivable, Notes
Receivable, Prepaid Expenses.

Current Liabilities

Current Liabilities encompass

all debts a company owes or will
owe within the next 12 months.

e.g:-

Accounts Payable, Wages
Payable, Current Portion of Long-
term debt, Accrued Tax payable,
Dividend Payable, Unearned Revenue.

Limitations of Working Capital

* Changing Values.

* Nature of Assets.

* Assets Devaluation.

* Unknown Debt.