ASSIGNMENT - 7

Define working capital.

Working capital is a financial metric that represents the difference between a company's current assets and current liabilities. It measures a company's short-term liquidity and operational efficiency.

The formula for calculating working capital is :

working capital = current assets - current Liabilities.

Key components:

current Assets: Assets that are expected to be converted into cash or used up within one year, such as cash, accounts receivable and inventory

current liabilities: obligations that are due to be settled within one year, including accounts payable, short-term debt, and other short-term liabilities.

Importance of working capital.

* It indicates the company's ability to cover its short-term obligations.

* A positive working capital suggests that a company can efficiently fund its day-to-day operations, while a negative working capital may indicate liquidity problems.

A.