ASSIGNMENT - 7

DEFINE WORKING CAPITAL

Working Capital is the difference between a companys current assets & 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.

WORKING CAPITAL = CURRENT ASSETS - 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 & accrued expenses.

WHY IT'S IMPORTANT:-

Working capital measures a company's liquidity efficiency & 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 its such as fast inventory turnover & delayed payments to supplies.

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