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.

Working capital = Current assets - Current liabilities.

Key components

Current Assets :-

These are assets that are except to be converted into cash within a year. The includes items like cash accounts receivable (money owned by customers) and inventory.

Currents liabilities :-

These are obilgations or debts that the company needs to settle within a year. They include accounts payable (money they company owes to suppliers), short term loans and accured expenses..

Why It's Importants:

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 delayed payments to suppliers.

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