

ASSIGNMENT-7

Define working capital

Amount needed to be funded

Working capital is the difference between

a company's current assets and ~~its~~ current liabilities.

It serves the short term liquidity needs of a business by meeting its day to day operational requirements for working capital.

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

$$WC = CA - CL$$

Key components

Current Assets

These are assets that are expected to convert into cash within a year. The include items like cash, bank deposits, receivables, payables and inventory.

Current Liabilities

These are obligations or debts that the company needs to settle within a year. They include accounts payable, short term loans, and other short term liabilities.

Why is it important?

Working capital measures a company's ability to cover its short-term liabilities with its short-term assets. Ensures enough short-term assets to cover short-term liabilities which helps ensure smooth operations. Ensures company can pay suppliers & other creditors that it owes payments to.

It is basic for ensuring that a company can continue its operations without any cash flow problems.

