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 Asset - Current Liabilities

Key Components

Current Assets

These are asset that are except to be Converted into Cash within a year. It includes items like Cash account receivable (money owned by Customer) and inventory

Current Liabilities

These are obligations 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 Expenses.

Why it's importants

Working Capital measures a Company liquidity efficiency and financial health. Position working Capital indicates that a Company has enough short term assets to comes in short term liabilities which helps ensure smooth operation. Negative working capital may signal liquidity issues unless the company has a business model that delayed payment to suppliers.

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