Assignment - 07

Define working capital:

working capital is the difference between a company's current asset and current liabilities. It represents the short term liquidity available. Its a business for melting its day-to-day operational needs. The formula for working capital is

working capital = current assets - current liabilities

Key components:

Curent asset

These are assets that are expect to be converted into cash within a year. The includes items line each accounts receivable (money overed by customers) and inventory

Current Liabilites:

These are objegaion or debts that the company needs to settle within a year. they include accounts payable (money the company owes to supplies). Short term loan and accured expenses

Why It's importants:

working capital measurer a company's liquidity efficiency and financial health. positive working capital indicates that a company has enough short-term assets to coverd its short-term Liabilities which helps smooth operations. negative working capital may signed liquidity issen where the company has a business moder that delayed payment to supplies.

It is accurial for ensuing that a company can containe its operator without running into cash flow probleam.