Assignment - 8

Explain about Negative working Capital and in what perspective it will be good, why?

working capital is company's current liabilities exceed its current assets it results in negative working capital, negative working capital is not always adverse for a business it shows that a business can sell inventory more efficiently and use revenue before settling supplier payments

when negatives working capital can be good

cash - flow Efficient Business

companies with Strong cash flow and low reliance on inventory can benefit form negative working capital

For example, retail business often receive receive cash from customer up font but time before they need to pay suppliers. This mean they didn't need a lot of working capital and they may deliberately run with negative working capital.

Fast Turnover Industries.

Business with quick inventory turnover and short-term sales cycles such as fast food chains and or e-commerce platforms can operate with negative working capital. They receive payments form customers quickly (sometimes before delivering goods) but suppliers are paid on credit terms creating a situations where liabilities temporarily exceed assets.

Supplier financing:-

Companies may intentionally extend their payments terms with suppliers using this ! credit as a form of keep less cash or working capital on hand while still fulfilling operations. Essentially the business is using suppliers to finance operations rather that its own capital,

Why negative working capital can be Beneficial

Lower financing Need.

Companies with negative working capital don't need to raise or hold as much cash for operations reducing borrowing or capital costs

Higher Efficiency:

it can reflect operational efficiency, especially in industries where goods are sold quickly and payments are delayed to suppliers

Focus on core Activities

Firms can allocate their resources to more productive areas (like expansion or innovations) instead of tying up cash in working capital