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 fort but time before they need to pay suppliess.

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 short-term financing. This enables them to keep less cash or working Capital on hand while still fulfilling

Operations. Essentially the business is using suppliers to finance operations rather than 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 ~~borrowi~~ borrowing or capital costs.

Higher Efficiency

It can reflect operational efficiency, especially in industrieds 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 innorations) insted of tying up cash in working capital.