Assignment - II

Explain about negative working capital and 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 [illegible] shows that a business can sell inventory more efficiently and use revenue before settling supplier payments.

When negative working capital can be good.

Cash-Flow Efficient Business.

Companies with strong cash flow and low [illegible] on inventory can benefit from negative working capital. For example retail business often [illegible] cash from customers up front but time before they need to pay supplier. 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, dairy and or e-commerce platforms can operate with negative working capital. They receive payments from customers quickly (sometimes before delivering goods) but suppliers are paid on credit terms creating a situation where liabilities temporarily exceed assets

Supplier Financing

companies may intentionally extend their Payment 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 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 resource to more productive areas (like expansion or innovations) instead of tying up cash in working capital