ASSIGNMENT-8

Explain about negative working Capital and in what Perspective it will be good why?

Negative working Capital occurs when a Company Current Liabilities exceed its Current asset. In Simple terms it means that a Company doesn't have enough short term assets (like Cash, receivables or inventory) to Covers its short term obligation (like Payables, short term loans, or accrued expenses). This Can sound alarming but in some Cases it Can actually be a Sign of efficiency depending Modes.

When negatives working Capital Can be good

Cash-flow efficient businesses.

Companies with strong Cash flow and low reliance on inventory Can benefit from negative working Capital. For example retail business (like supermarkets or online retailers) often receive Cash from Customers up front but have time before they need to Pay Suppliers. This mean they didn't need a lot of ~~money~~ 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 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 Payments terms with Suppliers using this Credit as form of short term financing this enables them to Keep less Cash or working Capital on hand while still fulfilling operation. Essentially the business using Suppliers to finance operation rather than its own Capital.

When negative working Capital Can be beneficial

Lower Financing Needs

Companies with negative Working Capital don't need to raise or hold as Much Cash for operation reducing borrowing or Capital Cost.

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 Core Productive areas (like expansion or innovation) instead of tying up Cash in working Capital.