# Assignment - 02

Explain about negative working capital and in what perspective it will be good why?

Negative working capital exists when a company's current liabilities exceed its current assets. In simple terms it means that a company doesn't have enough short-term assets (like, cash, receivables or inventory) to cover its short-term obligations (like payables; short-term loans; or accrued expenses). This can sometimes be a sign of efficiency depending on the business model

When negative working capital can be good.

**Cash flow efficient business:**

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 means 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 sale cycle such as, fast food chain and on e-commerce platform can operate with negative working capital. They receive payments from customer quickly (some time before delivering goods) but suppliers are paid on credit terms, creating a situation where liabilities temporarily exceed assets.

Supplier financing:

company may intentionally extend their payment term 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 supplier to financial return its own capital.

Why 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 costs.

=> Higher efficiency:

It can reflect operational efficiency especially in industries where good are sold quickly and payment are delayed to suppliers.

=> Focus on Core Activities

firm can allocate their resources to more productive cause (like expansion or innovation) instead of tying up cash in working capital.