Assignment - 08

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

Negative working capital when a company's current liabilities excel is current assets In simple terms it means that a company doesn't have enough short term assets (like cash recieble or Inventory) to cover its short term objectives (like Payable, short term loans or accoured expenses). This can saved be a sign of efficiency elepending on the business model

when negative working capital

cash flow efficient business:

companyes with strong cash flow and low scilence on Inventory. can benefit from negative working capital for example retaile business (like superally or online selatics) often recire cash from customer up fort but have tince before they need to pay supplies this mean they didn't need a lot of working capital and they may deliberaty 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 recivable payments from customer quicly (come time before dising goods) by suppliere are paid on credit terms, creating a situation where liabilities temporarily excel assets.

Supplier financing

Company may intentionaly exted their payment term with supplies, using this credit as a form of short term financing. This inabel them to keep less cash on working capital on hand while still fulfiling operations, Essentialy the business is using supplies to financial return is own capital why negative working capital can be benefical

=> Lower financing needs:

Companiess with negative working capital dont need to rais or hold as much cash for operation neduing borrowing on capital costs

=> Higher efficiency

It can tetter operational efficincy ospiraly in industries where good as sold quicly and payment are deloved to supplies

=> **focus on core Activities:**

firm can allocate its resources to more productive areas like expention or innovation instead of tying up cash in working capital