Assignment - 9

Why are we exclude cash while calculating working capital?

Cash is typically excluded from the calculation of working capital in certain contexts particularly in more - advanced financial analysis because is considered a non - operational asset while cash indeed a current assets it doesn't influence or its ability to generate revenue from core business activities.

Cash is Already Liquid:

working capital measures how well a company can manage its current assets (like inventory or account receivable) to cover current liabilities. since cash is immediately liquid and doesn't need conversion its often excluded to focus on assets that require more management

Focus on Operational Assets

Operating working capital measures only those current assets and liabilities directly tied to daily operation (such as inventory and cash especially excess cash or reserves may not be directly related to these operations

Cash management can vary.

Companies may hold large amount of cash for reasons, unrelated to their operations such as for future investments or to cushion against risks excluding cash offer a better reflection of how well a company is managing non-cash assets to meet short-term obligations.