Assignment 09

Why are we exclude cash while calculating working capital?

cash is typically excluded from the calculating of working capital in certain contexts, particularly in more advanced financial analysis because all is indeed a current assets doesn't directly contribute to a company's operational efficienty or its ability to genarate revenue from cos business activits. Here's a more detailed explanation.

Focus on operational efficiency:

working capital measure that efficiency with within a company manager its short term asset and liability to its day to day operation including cash equaly access cash that is not immediatly need for operation could asset pm capital requiment of the business atrore working

for example: excess cah selling is a bank amount detail sell how will the company managing recivable inventory or payable which are more closely tied to operational peformence.

cash is often a Residual Balance:

cash can accomlate for various resson (profit financial activi asset sales) and it may not be selated to how will the company is managing its working capital cyele as such including cash may quie an inflated view of liquidity without showing now effiency the company running its core operation.

Exclaing cash help focus the analysis on payable and inventory which diselt refud the working capital need to support the business

Better understanding of operating liquidity

when we exclude cash the resulting calculation (called non-cash working capital) provides a clear view of the operational liquidity of the company. This means the analysis focus on how well the company can valuo is short-term obligation firm sales and operation without valysing on excess cash resule

Cash flow vs working capital

cash in better orgalyised is terms of cash flow (sums as in a cash flow statement) rath's than in working the cash connection cycle (ccc) (how long it takes to cavort working capital into cash) is a better metaric for understanding how cash in generate from operations for rehen than simply including cash is the working capital

Example:

If a company has ₹ 5,00,000 is current asset (including ₹ 1,00,000 in cash) and ₹ 3,00,000 in current liabilities its working capital (using traditional formula) would be

=> working capital = current assets - current liabilities

= ₹ 5,00,000 - ₹ 3,00,000

= ₹ 2,00,000

=> Non-cash working capital } = [₹ 5,00,000 - ₹ 1,00,000) - ₹ 3,00,000

= ₹ 1,00,000