**B. COM SEM – 6**

**Subject—Financial Management**

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**CHAPTER NAME ----- WORKING CAPITAL MANAGEMENT -I**

Discussion on the concept of working capital management (unit-4)

**What is working capital?**

Working capital is the difference between a company’s current assets and current liabilities. It is a financial measure, which calculates whether a company has enough liquid assets to pay its bills that will be due in a year. When a company has excess current assets, that amount can then be used to spend on its day-to-day operations.

**Current assets**, such as cash and equivalents inventory, accounts receivable and marketable securities, are resources a company owns that can be used up or converted into cash within a year.

**Current liabilities** are the amount of money a company owes such as accounts payable, short-term loans, and accrued expenses, which are due for payment within a year.

 **Positive vs negative working capital**

 Having positive working capital can be a good sign of the short-term financial health for a company because it has enough liquid assets remaining to pay off short-term bills and to internally finance the growth of their business. Without additional working capital, a company may have to borrow additional funds from a bank or turn to investors bankers to raise more money.

 Negative working capital means assets aren’t being used effectively, and a company may face a liquidity crisis. Even if a company has a lot invested in fixed assets, it will face financial challenges if liabilities come due too soon. This will lead to more borrowing, late payments to creditors and suppliers and, as a result, a lower corporate credit rating for the company.

![Working Capital Analysis on PRAN-RFL Company [Financial Management]]()



Types of working capital







**What is the Working Capital Formula?**

The working capital formula is:

**Working capital = Current Assets – Current Liabilities**

The working capital formula tells us the short-term liquid assets remaining after short-term liabilities have been paid off.  It is a measure of a company’s short-term liquidity and is important for performing financial analysis and managing cash flow. Below is an example balance sheet used to calculate working capital.

