DPBS(PG) College, Anoopshahr

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Working Capital

Working capital, also known as net working capital (NWC), is the difference between a company's current assets, such as cash, accounts receivable (customers' unpaid bills) and inventories of raw materials and finished goods, and its current liabilities, such as accounts payable. Net operating working capital is a measure of a company's liquidity and refers to the difference between operating current assets and operating current liabilities. In many cases these calculations are the same and are derived from company cash plus accounts receivable plus inventories, less accounts payable and less accrued expenses.

Working capital is a measure of a company's liquidity, operational efficiency and its short-term financial health. If a company has substantial positive working capital, then it should have the potential to invest and grow. If a company's current assets do not exceed its current liabilities, then it may have trouble growing or paying back creditors, or even go bankrupt.

A company has negative working capital If the ratio of current assets to liabilities is less than one.

Positive working capital indicates that a company can fund its current operations and invest in future activities and growth.

High working capital isn't always a good thing. It might indicate that the business has too much inventory or is not investing its excess cash.

Formula for Working Capital

To calculate the working capital, compare a company's current assets to its current liabilities. Current assets listed on a company's balance sheet include cash, accounts receivable, inventory and other assets that are expected to be liquidated or turned into cash in less than one year. Current liabilities include accounts payable, wages, taxes payable, and the current portion of long-term debt. Current assets are available within 12 months. Current liabilities are due within 12 months.

Working Capital =Current Assets-Current Liablilities

Working capital that is in line with or higher than the industry average for a company of comparable size is generally considered acceptable. Low working capital may indicate a risk of distress or default.