Define working capital

Finance

Define Working Capital Working capital is a measure of liquid assets that an organization requires to manage its business. In other words, it can be defined as a difference between current assets and current liabilities. Working capital is required to meet the short-term needs of the business. The firm that fails to manage its working capital needs adequately has less chance of success in business.

Working capital is the backbone of any business and its role in success of any organization is significant. Debtors and creditors can increase or decrease the working capital requirements. Creditors that supply raw materials and ask payments after a few days or weeks provide leverage to the organization and reduce its working capital requirement. On the other hand, when the company buys raw materials on cash payments, it needs more working capital to run its business.

Similarly, when the company sells its finished goods on cash against delivery, the working capital requirement gets reduced; in contrast, when the company sells its goods on credit and receives payments after a few days or weeks, the firms working capital requirement gets enhanced. Therefore, to get the raw material supply on credit with delayed payments and to sell the goods on cash is the most idealistic strategy to have the minimal requirement of working capital particularly, when the firm is short of working capital funds. The management of working capital is the most crucial aspect for the success of any business and to save the company from liquidity pitfalls.

Reference

Sagner, J. (2010). Essentials of working Capital Management. Blackwell Publishing. Print.