

What is Working Capital?

Worksheet

Working capital is Current Assets minus Current Liabilities. Positive working capital means a company can cover its short-term obligations; negative working capital signals a liquidity problem.

$$WC = CA - CL$$

Questions

1. Current assets \$200,000, current liabilities \$150,000. Working capital?

- A) \$50,000
- B) \$350,000
- C) -\$50,000
- D) \$150,000

2. Working capital is calculated from which financial statement?

- A) Income statement
- B) Balance sheet
- C) Cash flow statement
- D) Statement of equity

3. Is negative working capital always a sign a company is failing?

- A) True, always
- B) False - some business models (e.g. fast-turnover retailers) run negative WC by design
- C) True, no exceptions
- D) Only for small companies

4. Which of these is NOT a current asset?

- A) Cash
- B) Accounts receivable
- C) Inventory
- D) Long-term equipment

5. A retailer has \$450,000 in current assets and \$300,000 in current liabilities. Find its working capital.

6. A startup has \$80,000 in current assets and \$120,000 in current liabilities.

7. An inventory-heavy manufacturer has \$600,000 in current assets (including \$250,000 of inventory) and \$500,000 in current liabilities.

8. Define: What is working capital?

9. Define: What does negative working capital mean?

10. Define: Name two components of current assets.

Answer Key

1. A) $\$50,000 - WC = 200,000 - 150,000 = \$50,000$.
2. B) Balance sheet - Current assets and current liabilities come from the balance sheet.
3. B) False - some business models (e.g. fast-turnover retailers) run negative WC by design - Some efficient business models intentionally operate with negative working capital.
4. D) Long-term equipment - Long-term equipment is a non-current (fixed) asset.
5. $WC = 450,000 - 300,000 = \$150,000$ Positive working capital healthy short-term liquidity.
6. $WC = 80,000 - 120,000 = -\$40,000$ Negative working capital may struggle to pay short-term bills.
7. $WC = 600,000 - 500,000 = \$100,000$ Though positive, a quick ratio check could reveal heavy inventory dependence.
8. Current Assets minus Current Liabilities - a measure of short-term liquidity.
9. Current liabilities exceed current assets - a potential cash-flow warning sign.
10. Cash and accounts receivable (also inventory and short-term investments).

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