What is Working Capital?

Worksheet

Working capital = Current Assets Current Liabilities. It reflects a company's ability to pay short-term debts and fund operations. Positive working capital is essential for business health.

$$\text{WC} = \text{CA} - \text{CL}$$

Questions

1. A company has $800,000 current assets and $500,000 current liabilities. Its working capital is:
A) $300,000
B) $500,000
C) $800,000
D) $1,300,000

2. Which is NOT a current asset?
A) Cash
B) Inventory
C) Accounts Receivable
D) Equipment

3. A negative working capital means:
A) Strong liquidity
B) Liabilities > Assets
C) Profitable operations
D) No inventory

4. Which action increases working capital?
A) Paying suppliers early
B) Taking short-term loans
C) Collecting customer payments
D) Buying equipment

5. Company A has current assets of $500,000 and current liabilities of $300,000. What is its working capital?

6. A retailer's current assets: $120,000 cash, $180,000 inventory, $60,000 receivables. Current liabilities: $200,000. Calculate WC.

7. A startup spends $50,000 on inventory but hasn't received customer payments yet. Current assets $80,000, liabilities $120,000. WC?

8. Define: What is working capital?

9. Define: What are current assets?

10. Define: What are current liabilities?

Answer Key

1. A) $300,000 - WC = $800,000 $500,000 = $300,000.
2. D) Equipment - Equipment is a fixed asset, not convertible to cash within one year.
3. B) Liabilities > Assets - Negative WC means current liabilities exceed current assets - a liquidity concern.
4. C) Collecting customer payments - Collecting payments increases cash (current asset), boosting working capital.
5. WC = Current Assets Current Liabilities WC = $500,000 $300,000 = $200,000 Positive working capital of $200,000
6. Current Assets = $120,000 + $180,000 + $60,000 = $360,000 Working Capital = $360,000 $200,000 = $160,000 The business has sufficient liquidity
7. Working Capital = $80,000 $120,000 = $40,000 Negative working capital; the startup needs external funding
8. The difference between current assets and current liabilities; measures short-term liquidity.
9. Assets convertible to cash within one year: cash, inventory, accounts receivable, prepaid expenses.
10. Debts due within one year: accounts payable, short-term loans, accrued expenses.