

HSC Business Studies

Topic 2 – Financial Planning and Management

Unit 2.5 – Effective Working Capital (liquidity) Management Unit Test

(1) What is working capital?

- **Working Capital** is a business assets that is used for the day to day operations of the business.

(2) What is the objective of managing working capital?

- To pay bills as they become due, to purchase enough stock to meet with demand and to have enough sales to support expenses.

(3) How is net working capital worked out?

- **Net Working Capital = Current Assets – Current Liabilities**

(4) Explain what is meant by the control of current assets and what is involved in doing this?

- Concerned with ensuring that there is enough cash on hand to pay bills as they become die and setting ip policies to control cash, receivables and inventories.

(5) Explain what is mean by the control of current liabilities and what is involved in doing this?

- Bills must be paid within the accounting period.
- This involves controlling accounts payable, loans, and overdrafts.

(6) Explain the strategies that can be used to conserve working capital?

- **Leasing**
 - Renting certain goods with weekly or monthly instalments rather than actually purchasing the product will free up cash for other use in the business.
- **Factoring**
 - Selling off customer debt to financiers, therefore receiving cash ASAP.
- **Sale and Lease Back**
 - Involves Real Estate and land arrangements.