# 39 Lecture - MGT201

## **Important Subjective**

## 1. What is working capital management?

Working capital management is the process of managing a company's short-term assets and liabilities to ensure that it has sufficient cash flow to meet its operational needs.

## 2. What are the components of working capital?

The components of working capital are current assets, which include cash, accounts receivable, inventory, and other short-term assets, and current liabilities, which include accounts payable, accrued expenses, and other short-term liabilities.

## 3. Why is working capital management important?

Working capital management is important because it helps ensure that a company can meet its short-term financial obligations and operate efficiently.

## 4. What are some strategies for managing working capital?

Strategies for managing working capital include improving cash flow, reducing inventory levels, accelerating accounts receivable collections, and negotiating more favorable payment terms with suppliers.

## 5. How does working capital management affect a company's profitability?

Effective working capital management can improve a company's profitability by reducing the cost of financing short-term assets and liabilities and increasing operational efficiency.

## 6. What are the risks of poor working capital management?

Poor working capital management can lead to cash flow problems, missed payment deadlines, and increased financing costs. It can also affect a company's credit rating and ability to obtain financing.

## 7. What are some tools used in working capital management?

Tools used in working capital management include cash flow forecasting, inventory management software, accounts receivable and payable software, and financial ratio analysis.

#### 8. How can a company optimize its working capital management?

A company can optimize its working capital management by setting clear goals, improving its cash conversion cycle, implementing effective inventory management, and using technology to streamline its financial processes.

#### 9. How does the size of a company affect its working capital management needs?

The size of a company can affect its working capital management needs because larger companies generally have more complex operations and larger cash flows, which require more sophisticated working capital management strategies.

## 10. What role does a company's industry play in its working capital management?

The industry a company operates in can affect its working capital management needs and strategies because different industries have different cash flow patterns and financial risks. For example, a manufacturing company may have higher inventory levels than a service-based

company, which can affect its working capital needs.