

Working Capital Management

Many of you have heard the term “working capital”, but really do not know its real meaning and how it affects your business. If you have a balance sheet handy, it is easy to calculate Working Capital.

Under assets on your balance sheet, look for the line item called, “Current Assets”. These items are those things that typically are going to be exchanged for cash in the next year like Inventory, Cash, and Accounts Receivables. Next, find the line under liabilities called, “Current Liabilities”. These are debts that you intend to pay off in the next year and may include Accounts Payables, Current Portion of a Long Term Debt and any Bonuses not yet paid to co-workers. The difference between Current Assets and Current Liabilities is the value of your working capital.

Working Capital is the extra monies you have available to pay for things until your monies come in from Inventory Sales or Accounts Receivables. You might call it your “cushion” from bad debts, etc. The amount of your working capital should be about 10% of sales to cover you in difficult times.

If you have too much working capital for the sales you are doing, you are overcapitalized and really do not let your monies work for you in your business. The money that you have it tied up in inventory, cash or accounts receivable and cannot promote marketing, hiring, acquisition of needed assets, etc. Most companies like this tend to be old companies, very conservative, or on the brink of retirement. These companies are hoarding monies and strangling the

company of needed cash.

If you have too little working capital for the sales you are doing, you are undercapitalized and do not have enough monies to finance the sales you are wanting to do. You are trying to do too much sales and depend upon credit to keep you afloat. If you have a major bad debt, you do not have enough cushion to keep you solvent.

Remember, it is okay to pursue higher sales and higher profits, but ask yourself if you have enough working capital to fund those sales. Good profits and good selling.

Ron Collier, PhD
President
Collier Consulting Group
www.collier-consulting.com