

SOURCES AND USE OF WORKING CAPITAL

Any transaction that increases the amount of working capital is a source of working capital, For example, the sale of merchandise at a price greater than its cost is a source of working capital, because the increase in cash or receivable from the sale is greater than the decreases in inventories.

Any transition that decreases working capital is a use of working capital. For example, either incurring a current liability to acquire a non-current asset or using cash to pay expenses represents a decrease in working capital.

On the other hand, some transitions affect current assets or current liabilities but do not change the amount of working capital. For example the collection of an account receivable (which increases cash and decrease and account receivable by an equal amount) is not a source of working capital. Similarly, the payment of an account payable (which decreases cash and decreases an account payable by an equal amount) does change the amount of working capital.