

WORKING CAPITAL

In ordinary usage, the term funds usually mean cash. Accountants and financial executives, however, think of "funds" in a broader sense. They view the funds available to a company as its working capital the difference between current assets and current liabilities.

Short-term credit is often used as a substitute for cash; notes and accounts payable as well as various accrued liabilities are used to meet the short-term financing needs of a business.

Current

assets are constantly being converted into cash, which is then used to pay current liabilities. The net amount of short-term liquid resources available to a business firm at any given time.

Therefore, is represented by its working capital-the difference between current assets and current

liabilities. This explains why it is natural to think of working capital as a "fund" of liquid resources on hand at any given time.

If the amount of working capital increased during a given fiscal period, this means that more working capital was generated than was used for various business purposes; if a decrease in working capital occurred, the reverse is true. One of the key purposes of the statement of changes

in financial position is to explain fully the increase or decrease in working capital during a fiscal period. This is done by

Showing where working capital originated and how it was used.