



# FSS GROUP

Helping businesses manage financial information

## The Importance of Managing Working Capital

Working capital is defined for accounting purposes to be the difference between current assets and current liabilities. The term “current” applies to those balance sheet items the turnover or mature within twelve months.

So, why is managing working capital so important? While operating profitability is the key to the long-term prosperity of an organization, the availability of operating cash supports the organization’s ability to operate efficiently. Allowing excess levels of working capital to exist can constrict an organization’s flow of cash to meet current obligations.

Typical problems that exist when analyzing an entity’s working capital are: excess or slow-moving inventory, significant levels of past due or uncollectible accounts receivable and improperly structured bank financing.

Methods of managing working capital, then, are the implementation of management reporting systems that measure the levels and changes in these key areas. Examples of indicators that are typically used to monitor this performance are current ratios, quick ratios, inventory turnover ratios, days sales in inventory (DSI) and days sales outstanding (DSO).

For assistance in managing working capital, please contact us.

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**Take our quick business assessment on the back  
to discover what your needs are!**

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## Business Assessment

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1. Am I confident that my internal financial statements are correct and useful in running my business?  
Are they produced in a timely manner?  
 Yes       No
2. Do I have a good understanding of what my costs and product line gross margins are?  
 Yes       No
3. Is my overhead in-line with my volume of business?  
 Yes       No
4. Do I have an understanding of what working capital is and the impact it has on my business?  
 Yes       No
5. Am I happy with my banking relationship?  
 Yes       No
6. Am I happy with the service and advice I get from my CPA firm?  
 Yes       No
7. Do I have the right internal accounting help? Do I have adequate backup for this function?  
 Yes       No
8. Does my accounting software handle my type of business adequately?  
 Yes       No
9. Do I manage my inventories effectively?  
 Yes       No
10. Do I have an exit strategy?  
 Yes       No
11. Is my computer system adequate for my business?  
 Yes       No
12. Does my annual budget process provide a clear allocation of resources to manage profitability and cash flow?  
 Yes       No

If the answer is no to any of the above, contact us to discuss possible solutions.