**Schedule of changes in working capital**

The information relating to the changes in current natured accounts between two periods of time presented in the form of a statement is what we call the schedule/statement of changes in working capital.

## Preparing the Schedule/Statement of changes in working capital

Preparing the schedule/statement of changes in working capital requires us to present the information relating to the current area of the balance sheets pertaining to the two periods in the format given below and deriving and presenting the changes within them.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Schedule/Statement of Changes in Working Capital for the period from \_\_ to \_\_** | | | | |
| **Particulars/Account** | **Balance as on 31st March** | | **Working Capital Change** | |
| **2007** | **2008** | **Increase** | **Decrease** |
| a) CURRENT ASSETS  1) Cash Balance  2) Bills Receivable  3) Sundry Debtors  4) Stocks/Inventories  5) Prepaid Expenses | 56,000  5,75,000  9,15,000  9,48,000  3,24,000 | 78,000  8,25,000  12,25,000  12,00,000  2,84,000 | 22,000  2,50,000  3,10,000  2,52,000 | 40,000 |
| TOTAL | 28,18,000 | 36,12,000 | 8,34,000 | 40,000 |
| b) CURRENT LIABILITIES  1) Sundry Creditors  2) Bills Payable  3) Bank Overdraft  4) Outstanding Expenses  5) Provision for Taxation  6) Provision for Dividends  7) Reserve for Bad Debts | 7,40,000  2,20,000  2,81,000  1,23,000  2,38,000  1,98,000  18,000 | 11,00,000  4,00,000  2,50,000  1,00,000  3,00,000  2,50,000  12,000 | 31,000  23,000    6,000 | 3,60,000  1,80,000    62,000  52,000 |
| TOTAL | 18,18,000 | 24,12,000 | 60,000 | 6,72,000 |
| Working Capital [(a) - (b)] | 10,00,000 | 12,00,000 |  |  |
| TOTAL | | | 8,94,000 | 6,94,000 |
| Net Change in Working Capital | | | 2,00,000 |  |

* Identify all the Current natured accounts on the assets as well as the liabilities sides of the two balance sheets in consideration.

In [financial modeling](https://corporatefinanceinstitute.com/resources/knowledge/modeling/what-is-financial-modeling/) working capital changes can have a big impact on cash from operations, [free cash flow](https://corporatefinanceinstitute.com/resources/knowledge/valuation/what-is-free-cash-flow-fcf/), and the resulting valuation of a business. If a business experiences an increase in [accounts receivable](https://corporatefinanceinstitute.com/resources/knowledge/accounting/what-is-accounts-receivable/), it means it has not collected payment on a portion of its revenue, which causes cash flow to decrease. Conversely, if a company has an increase in [accounts payable](https://corporatefinanceinstitute.com/resources/knowledge/accounting/what-is-accounts-payable/), it means the company has expenses it has not paid for which causes cash flow to increase. The net effect of changes in [current assets](https://corporatefinanceinstitute.com/resources/knowledge/accounting/current-assets/) and [current liabilities](https://corporatefinanceinstitute.com/resources/knowledge/accounting/current-liabilities/) is what makes up the working capital impact in financial modeling.

### Is it good to have a large amount of working capital?

Not always. If you're include a company's "rainy day" reserve cash in its assets within the working capital formula (current assets - current liabilities), then a large amount of working capital is a good indicator that the company will be financially able to repay its payables and other short-term debt even if business were to suddenly dry up.

However, if you're using only a company's cash needed for "day-to-day" operations in the current assets part of the working capital formula, then a large amount of working capital with a relatively small amount of cash could mean problems. It could mean the company is a) having trouble moving its inventory, b) collecting its receivables from customers too slowly, or is c) paying its vendor's payables too quickly. If the company has little cash available and it's unable to do well in those three categories, the company could run into problems paying its bills and vendors.

### Is a negative working capital amount always a bad sign?

While a negative working capital amount typically warns that a company has more short-term debt than it has in cash and other assets, it sometimes be a smart use of cash resources depending on the company's business model.   
In Dell's heyday around 2019, for example, the company was able to assemble its personal computers and sell them directly to customers more than 30 days before the PC maker needed to pay its suppliers.

While these sales gave Dell large accounts payable balances (and typically a negative working capital balance), the company was able to make and sell computers by essentially using its suppliers' money without ever having to dip into its own cash reserves.