

Working capital = Current assets minus current liabilities

*The amounts used on this form are taken from **Filled-In Form R0**.*

Calculation of **working capital** from the balance sheet dated December 31, 2022.

| | | | | |
|----------------------------------|-----------|---------------|-----------|-----------|
| Current assets | \$ | 72,000 | CA | |
| <i>minus</i> current liabilities | \$ | 61,000 | CL | |
| = Working capital | \$ | 11,000 | WC | (CA - CL) |

CA Current assets are those assets which will turn to cash within one year of the balance sheet date plus prepaid expenses. The following are usually current assets:

| | | | |
|-----------------------------------|-----------|---------------|-----------|
| Cash | \$ | 400 | |
| Temporary investments | | 3,000 | |
| Accounts receivable (collectible) | | 18,000 | |
| Inventory | | 45,000 | |
| Supplies | | 600 | |
| Prepaid expenses | | 1,000 | |
| Other current assets | | 4,000 | |
| Total current assets | \$ | 72,000 | CA |

CL Current liabilities are the obligations that will be due within 12 months of the balance sheet date and will require the use of a current asset or will create another current liability. Typically, the following are current liabilities:

| | | | |
|-------------------------------------|-----------|---------------|-----------|
| Notes payable (due within one year) | \$ | 10,000 | |
| Accounts payable | | 31,000 | |
| Wages and fringes payable | | 4,000 | |
| Taxes payable | | 6,000 | |
| Accrued expenses | | 3,000 | |
| Customer deposits | | 5,000 | |
| Other current liabilities | | 2,000 | |
| Total current liabilities | \$ | 61,000 | CL |

Notes:

Working capital or net working capital is an indicator of an organization's ability to meet its current obligations. A larger amount of working capital is better than a smaller amount.

It is critical that only those accounts receivable and inventory items that will turn to cash within one year of the balance sheet date be included as current assets.

For a blank form see **Form R1**.

Learn more about financial ratios at www.AccountingCoach.com.