



# How to calculate your business's working capital

Ensure your business has enough liquidity to cover short-term costs and operate smoothly by calculating how much working capital it has.



## 3 Simple working capital formulas

Use these easy guides to improve your business's operational efficiency and assess its financial health.



### Working capital

This is a snapshot of your business's short-term financial health. It can help you make important financial decisions, prepare for fluctuations in the market and respond to economic changes.

$$\text{Working capital} = \text{Current assets} - \text{Current liabilities}$$



### Working capital ratio

This helps you understand how efficiently you're using your resources to cover short-term obligations.

$$\text{Working capital ratio} =$$

Current assets



Current liabilities

A ratio greater than 1 shows you can cover short-term liabilities.  
A ratio less than 1 shows you may struggle to meet short-term obligations.

Optimal ratio:  
between 1.5 and 2



### Net working capital (NWC)

Your net working capital reflects your liquidity and capacity to grow. It helps you gauge if your business can meet short-term obligations without relying on financing.

$$\text{Adjusted NWC} = \text{Current assets} - \left( \text{Current liabilities} - \text{Short-term debt} \right)$$



#### How to calculate

Use the working capital formula to calculate your business's net working capital. Adjust the formula to get a true picture of your operational working capital.