

Al-Saudia Virtual Academy
Pakistan Online Tuition

USES OF WORKING CAPITAL

1. **Declaration Of Cash Dividends:** The declaration of a cash dividend results in a current liability (dividend payable) and is therefore a use of funds. Note that it is the declaration of the dividend, rather than the payment of the dividend, which the use of funds. Actual payment of the dividend reduced current assets an current liabilities by the same amount and thus has no effect upon the amount, working capital.
2. **Purchase Of Non-current Assets:** The purchase of noncurrent assets, such plant and equipment, usually-reduces current assets or increases current liabilities. In either case, working capital is reduced. Special situations in which noncurrent assets are acquired in exchange for other noncurrent assets or long term liabilities are discussed later in this chapter.
3. **Repurchase Of Long Debt:** Working capital is decrease when current assets are used to repay long-term debt. However, repayment of short-term debt is not a use of funds, since current assets and current liabilities decrease the same amount .
4. **Repurchase Of Outstanding Stock:** When cash is paid out to repurchase outstanding shares of stock, working capital is reduced.