

Working Capital Mini-Course

Steven M. Bragg

Table of Contents

Chapter 1 – Working Capital Concepts.....	1
Learning Objectives.....	1
Introduction	1
The Nature of Working Capital.....	1
The Importance of Working Capital.....	4
The Optimum Amount of Working Capital	5
Zero Working Capital.....	5
Working Capital for a Growing Business	6
Working Capital for a Declining Business.....	9
Responsibility for Working Capital	10
Chapter Summary	11
Review Questions	12
Review Answers.....	13
 Chapter 2 – Cash and Investment Management.....	 15
Learning Objectives.....	15
Introduction	15
Reasons to Hold Cash.....	15
The Cash Forecast.....	16
The Short-Term Cash Forecast.....	17
The Medium-Term Cash Forecast.....	21
The Need for Cash Concentration	22
Cash Sweeping	24
The Zero Balance Account.....	25
Multiple Sweep Arrangements	26
Manual Sweeping	27
Sweeping Rules.....	27
Sweep Problems.....	27
Sweep Costs	28
Summary	30
Notional Pooling	30
Notional Pooling Problems.....	31
Notional Pooling Costs.....	32
Summary	32
Multi-Tiered Banking	32
Hybrid Pooling Solutions	33
Cash Concentration Best Practices	33
Cash Concentration Alternatives.....	34
Investment Guidelines.....	35
Investment Strategy	39
Types of Short-Term Investments.....	41
Money Market Funds	41
Commercial Paper.....	42
Certificates of Deposit.....	42

Table of Contents

Bankers' Acceptances	43
U.S. Government Debt Instruments.....	43
Chapter Summary	44
Review Questions	45
Review Answers.....	47
Chapter 3 – Receivables Management.....	49
Learning Objectives.....	49
Introduction	49
The Receivables Component of Working Capital	49
Receivables Strategy	50
Credit Exposure Risk.....	52
Internal Credit Rating System	52
Third Party Credit Ratings.....	55
Credit Insurance	56
Terms Alterations.....	57
Receivables Financing.....	58
Portfolio Approach to Risk.....	59
Cross-Selling Credit Exposure Risk	60
Early Payment Discounts.....	61
Billing Impact on Working Capital	62
Collections Management.....	63
Other Cash Acceleration Techniques.....	65
Receivables Measurements	67
Days Sales Outstanding.....	67
Bad Debt Percentage.....	68
Receivables Aging Report.....	69
Chapter Summary	70
Review Questions	71
Review Answers.....	72
Chapter 4 – Inventory Management.....	73
Learning Objectives.....	73
Introduction	73
The Inventory Conundrum.....	73
Effective Inventory Management.....	74
Reduce Product Options	74
Shift Ownership	75
Reduce Inventory Reserves.....	76
Compress the Process.....	77
Rationalize Distribution	78
Prevent Obsolete Inventory.....	79
Engage in Rapid Disposition	81
Improve Inventory Records	82
Adjust Policies	83

Table of Contents

Additional Concepts.....	84
Produce-to-Order (Pull) System.....	84
The Focus of Inventory Analysis.....	86
Responsibility for Inventory Reduction.....	86
Inventory Measurements	87
Inventory Turnover Ratio.....	87
Raw Materials Turnover.....	88
Work-in-Process Turnover	89
Finished Goods Turnover.....	90
Returnable Inventory Valuation.....	91
Opportunity Cost of Excess Inventory	91
Chapter Summary	93
Review Questions	94
Review Answers.....	95
 Chapter 5 – Payables Management.....	 97
Learning Objectives.....	97
Introduction	97
Terms Enhancement.....	97
Effective Payables Management.....	99
Float.....	99
Early Payment Discounts.....	100
Payables for Distressed Businesses	102
Supplier Signaling	103
Special Situations.....	104
Payables Measurements	105
Chapter Summary	106
Review Questions	108
Review Answers.....	109
 Chapter 6 – Asset-Based Lending	 111
Learning Objectives.....	111
Introduction	111
The Line of Credit.....	111
Invoice Discounting	112
Inventory Financing	113
The Borrowing Base.....	113
Inventory as Collateral.....	115
Chapter Summary	115
Review Questions	117
Review Answers.....	118
 Glossary	 119
 Index.....	 123