

MBA (FM)

Managing Working Capital

FIN 653 (Elective)

Credit hrs. 2

Lecture hrs. 32

Course Description

This course deals with how businesses set their working capital policy, prepare short-term plan, and manage the components of working capital. For this, it begins with the nature of working capital management and with the discussion of working capital policies. Then, it describes working capital planning and control mechanism. Further, it describes how the components of working capital – cash, receivables and inventory are managed in a firm. Finally, it deals with different methods of financing working capital requirements.

Learning Outcomes

On completion of the course, students are expected to be able to:

- Decide appropriate working capital policy of a firm
- Calculate working capital requirement of a firm
- Calculate various ratios to monitor and control working capital in a firm
- Prepare cash budget, determine appropriate level of cash balance and invest idle fund in marketable securities
- Set appropriate credit and collection policies
- Determine optimal level of inventory
- Choose appropriate sources of financing short-term requirements of funds.

Course Details

Unit 1: Nature of Working Capital Management	2 hrs.
Concepts and types working capital; Scope of working capital management; Importance of working capital management; Role of the financial manager in managing working capital.	
Unit 2: Working Capital Policy	4 hrs.
The need of working capital policy; Aspects of working capital policy: current assets investment policy, current assets financing policy; Assessing the risk and return of each policy.	
Unit 3: Working Capital Planning and Control	6 hrs.
Tracing cash and net working capital; The operating cycle and the cash cycle: defining the operating and cash cycles, the operating cycle and the firm's organization chart, calculating operating and cash cycles, operating and cash cycles in practice; Short-term financial plan; Working capital management ratios; Working capital and inflation.	

Unit 4: Cash Management 6 hrs.
Reasons for holding cash; Float management; Cash collection and concentration; Managing cash disbursement; Investing idle cash in marketable securities; Models for determining optimal cash: inventory model and stochastic model; Cash budgeting.

Unit 5: Credit and Inventory Management 8 hrs.
Credit and receivables; Terms of the sale; Analyzing credit policy; Optimal credit policy; Credit analysis; Collection policy; The financial manager and inventory policy; Inventory management techniques: ABC approach, Economic order quantity (EOQ) model, extension to the EOQ model, managing derived-demand inventories.

Unit 6: Working Capital Financing 6 hrs.
Short-term versus long-term financing of working capital; Sources of short-term financing; accruals, trade credit, bank loan, commercial paper, factoring and pledging of receivables, floating lien, chattel mortgage, trust receipt loan, warehouse financing; Cost of sources of financing.

Suggested Readings

- Ross, S. A., Westerfield, R. W., Jaffe, J., Jordan, B. D., & Kakani, R. K., *Corporate Finance*, Chennai: McGraw Hill.
- Van Horne, J. C. & Dhamija, S. *Financial Management and Policy*. New Delhi: Pearson Education.
- Brealey, R. A., Myers, S. C., Allen, F., & Mohanty, P., *Principles of Corporate Finance*, New Delhi: McGraw-Hill Education India.

Note: Latest edition of the suggested readings will be used and the faculty may recommend additional reading materials.
