

BNK 203: Working Capital Management

Credits: 3
Lecture Hours: 48

Course Objective

The course aims to provide the students with the basic understanding of concepts, tools and techniques of working capital management and develop skill to apply them in real life situations with special reference to corporate entities of Nepal

Course Description

The course deals with working capital policies and how firms choose working capital investment and financing policies. The course also presents nature and sources of working capital. Finally, it deals with the management of the components of working capital cash and marketable securities, receivables and inventories.

Course Details

Unit 1: Unit 1: Introduction to Working Capital Management

LH 4

Concept and nature of working capital; Concept of working capital management; Types of working capital; Importance of working capital; Determinants of working capital.

Unit 2: Working Capital Policy

LH 4

Risk-return tradeoff in working capital management; Working capital investment policies: restricted, relaxed and moderate policies; Working capital financing policy: maturity matching, aggressive and conservative approaches; Choosing working capital investment policy and working capital financing approach.

Unit 3: Working Capital Planning and Control

LH 8

Planning for working capital; Operating environment of working capital; Concept of working capital cycle; Computation of working capital cycle; Determination of working capital; working capital management ratios: ratios measuring liquidity, ratios measuring structure, and ratios measuring efficiency; Working capital and inflation; Managing the components of working capital.

Unit 4: Working Capital Financing

LH 8

Nature of working capital financing; Short-term versus long-term financing; Sources of short-term financing: accruals, trade credit, bank loan, commercial papers, accounts receivable financing (pledging and factoring), inventory financing (floating lien, chattel mortgage, trust receipt loan and warehouse financing); Cost of sources of short-term financing; Factors to be considered in working capital financing.

Unit 5: Cash and Marketable Securities Management**LH 10**

Overview of cash management; Significance of cash management; Motives for holding cash; Increasing the efficiency of cash management: speeding collection, controlling disbursement, using float, cash flow synchronization, matching cost and benefits of cash management; Determinants of cash flows; Cash forecasting: preparation of cash budget, managing uncertainty in cash flow forecast; Cash management models: Baumol model, Miller–Orr model; Meaning of marketable securities; Common investment instruments; Variables in marketable securities selection; Investment in marketable securities: the marketable securities portfolio, selecting securities for the portfolio.

Unit 6: Receivable Management**LH 7**

Overview of receivable management; Significance of receivable management; Role of credit manager; costs of maintaining receivables; Accumulation of receivables; Elements of credit policy; Setting the credit standards; Terms of credit; Credit collection policy; Monitoring accounts receivables: days' sales outstanding and aging schedule; Other factors influencing credit policy; Analyzing the changes in the credit policy variables.

Unit 7: Inventory Management**LH 7**

Overview of inventory management; Components of inventory; Benefits of holding inventory; Determinants of inventory investment; Significance of inventory management; Basic inventory cost: carrying cost, ordering costs, total inventory costs; The economic order quantity; Reorder point Reorder point and safety stock; Quantity discount; Quantity discount with price break; EOQ model with non-instantaneous replacement; Inventory control system: ABC system; JIT system; Computerized system, Outsourcing.

Basic texts

Besley, S. & Brigham, E. F. *Essentials of managerial finance*. New York: Harcourt Brace College Publishers.

References

Van Horne, J. C. & Wachowich, J. M. *Fundamentals of financial management*. New Delhi: Prentice Hall Inc.

Ross, S. A., Westerfield, R. W. & Jordon, B. D. *Fundamentals of corporate finance*. New Delhi: Tata McGraw Hill.

Paudel, R. B., Baral, K. J., Gautam, R. R. & Rana, S. B. *Working capital management*. Kathmandu: Asmita Books Publishers and Distributors (P) Ltd.