

Jan. 16, 2020
Thursday

Chapter 15

* Working capital = current assets - current liabilities

⇓

⇓

- cash

- short-term liab.

short-term sec.

- marketable sec.

eg: - A/P

- A/R

- Accruals.

- Inventory

* working capital $\left\{ \begin{array}{l} \text{Positive (is better): } CA > CL \\ \text{Negative: } CA < CL \end{array} \right.$

* ~~Current~~ Total assets = Total liab. + total stock.

Current assets

Fixed assets

Current liab.

long-term debt

Ratio	Profitability	risk
Current assets ^① ↑	↓	↓
Total assets ^② ↓	↑	↑
Ratio		
Current liab. ^① ↑	↑	↑
Total assets ^② ↓	↓	↓

لوقت ازيد اعلى

current liab.

Profitability

risk

Total assets

assets

assets

assets

assets

assets

* There is a direct relationship between profitability and risk.

* Cash Conversion Cycle : number of days needed
CCC for cash to convert back
to cash

متوسط (average period) في

$$CCC = \text{Average age of inventory} + \text{Average collection period}$$

$$= \boxed{AAI} + ACP - APP - \text{Average payment period}$$

365
Inv. turnover

$$\Rightarrow CCC = AAI + ACP - APP$$

operating cycle

دورة التشغيل

دورة المبيعات

$$\Rightarrow CCC = \text{operating cycle} - APP$$

$$* AAI = \frac{365}{\text{Inv. turnover}} = \frac{\text{Cost of goods sold}}{\text{Inventory}}$$

$$* ACP = \frac{A/R}{\text{Average sales/day}}$$

$$* APP = \frac{A/P}{\text{Average purchases/day}}$$

* The shorter the cash conversion cycle the better goal of any firm.

- 1) To turn the inventory over as quickly as possible.
- 2) To collect the receivables as quickly as possible.
- 3) To pay the payables as slowly as possible.

* A/R investments is less risky than investments in inventories and fixed assets. Investment in inventories is less risky than investment in fixed assets.

(أي استثمار في النقد أسهل من استثمار في المخزون أو الأصول الثابتة)

⇒ Cash has the less risky.

(Page 656).

الفقرة 656 + 657 مهمة جداً

ملاحظة If the ratio of $\frac{\text{current liability}}{\text{Total assets}}$ increases, the risk

(دائري)
(مخاطر)

will increase; because ~~increasing~~ any increase in current liabilities will → in turn → decrease net working capital.

* Matter of fact (page 658 - at the top) is important.

* If we reduce ~~the~~ the days of 'collection period', the working capital will decrease (direct relationship).

⇒ (example page 658) ⇐

1, 6, 12, 17

P15-1

AAI = 90 days

ACP = 90 days

(\$ in million)

APP = 60 days

Sales = \$14

C.G.S. = \$9.5

Purchases = \$5

a) $OC = AAI + ACP = 90 + 90 = 180 \text{ days}$

b) $CCC = OC - APP = 180 - 60 = 120 \text{ days}$

c) Inventory = $(9.5 \times 90) \div 365 = \2.34

+ A/R = $(14 \times 90) \div 365 = \3.45

- A/P = $(5 \times 60) \div 365 = \0.82

= Resources invested = \$4.97