Jan. 16, 2020
Thursday

Chapter 15

* Working capital = current assets − current liabilities

current assets ⇓
- cash
- marketable sec. ⇐ short-term sec.
- A/R
- Inventory

current liabilities ⇓
- Short-term liab
- eg: − A/P
- Accruals.

* working capital
  - positive (is better) : CA > CL
  - Negative : CA < CL

* ~~Current as~~ Total assets = Total liab. + total stock.
  - Total assets: Current assets, Fixed assits
  - Total liab.: Current liab., long-term debt

Ratio	Profitability	risk
Current assets ↑ / Total assets ↓	↓	↓
	↑	↑

Ratio	Profitability	risk
Current liab. ↑ / Total assets ↓	↑	↑
	↓	↓

لو قررت أزيد اعتمادي على current liab.
في تمويل الـ Total assets
تأثير على الـ Profitab. والـ risk

(* لأن الدين طويل الأجل عليه فوائد أعلى).

* There is a direct relationship between profitability and risk.

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

زي رشيو (average period) أمّة

CCC = Average age of inventory + Average collection period

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

$AAI = \frac{365}{\text{Inv turnover}}$

$\Rightarrow CCC = \underbrace{AAI + ACP}_{\text{operating cycle}} - APP$

operating cycle — عدد الأيام اللي إلي

APP — عدد الأيام الي علي.

$\Rightarrow CCC$ = 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 sycle 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.

(إلي بتحصّل لمصاري cash بشكل أسرع هو بكون أقل مخاطرة).

⇒ Cash has the less risky.

(Page 656).

الفقرة صفحة 656 + 657 مهمة جداً.

مثال

(والباقي نطبق عليه)

If the ratio of $\frac{\text{current liability}}{\text{Total assets}}$ increases, the risk will increase; becouse ~~increasing of~~ 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 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 days
b) CCC = OC − APP = 180 − 60 = 120 days.
c) Inventory = (9.5 x 90) ÷ 365 = $2.34
+ A/R = (14 x 90) ÷ 365 = $3.45
− A/P = (5 x 60) ÷ 365 = $0.82

= Recources invested = $4.97