

Jan. 16, 2020
Thursday

Chapter 15

* Working capital = current assets - current liabilities

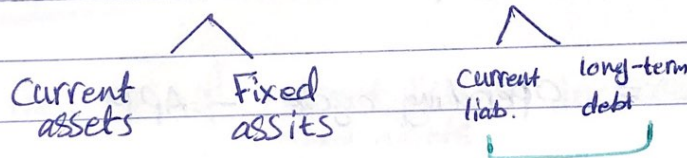
\Downarrow
 \Downarrow

- cash - Short-term liab
 - marketable sec. eg: - A/P
 - A/R - Accruals.
 - Inventory

short-term sec. \leftrightarrow

* 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.



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

لوقت ازيد اقل الربح

current liab.

Profitability

risk

Total assets

لوقت اقل ازيد الربح

موازنة اقل

* There is a direct relationship between profitability and risk.

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

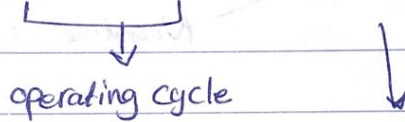
متوسط (average period) في

CCC = Average age of inventory + Average collection period

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

$\frac{365}{\text{Inv. turnover}}$

$$\Rightarrow \text{CCC} = \text{AAI} + \text{ACP} - \text{APP}$$



عدد الأيام التي في دورة التشغيل

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

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

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

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



* 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 لـ cash أسهل من استثمار في المخزون أو الأصول الثابتة)

⇒ Cash has the less risky.

(Page 656).

الفقرة 656 + 657 جاء

دالة If the ratio of current liability increases, the risk Total assets

(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 ~~at~~ 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

APP = 60 days

Sales = \$14

C.G.S. = \$9.5

Purchases = \$5

(\$ in million)

a) OC = AAI + ACP = 90 + 90 = 180 days

b) CCC = OC - APP = 180 - 60 = 120 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