

Working Capital Management

- Managing overall working capital
- Managing components of working capital
 - Management of Debtor/Receivable
 - Management of Stock/inventory
 - Management of Cash
 - Management of Creditors/Payable

Receivable Management

Debtor Management

- Customer
- Loan to customer
- Cash sale Vs. Credit Sale: Full payment vs. Instalment payment
- Chance of loss: Bad Debt

Aspects of Receivable Management

- Credit Policy: How much?
 - Whom?
 - Amount?
 - How long?
- time limit given to customers for repayment:
'Net 30'; 3/15 'Net 30'

Cost Involved for credit to Customer

- Cost of blocked Funds
- Default cost/ Bad debt
- Administrative cost
 - Record keeping
 - Collection cost
 - Investigation cost

Impact of Increase in Credit Period on Profitability

Parameter	Impact	Impact on Profitability
Sales		
Fund invested		
Bad Debt		
Cash Discount		
Collection cost		

Impact of Increase in Credit Period on Profitability

Parameter	Impact	Impact on Profitability
Sales	Increase	+
Fund invested	Increase	-
Bad Debt	Increase	-
Cash Discount	Decrease/increase	-/+
Collection cost	Increase	-

Mohanbabu has a grocery shop. He sell only in cash. Now he is planning to sell in credit. He provides following data to you to suggest him. Cost of fund 10%

	Existing Plan (Rs.)	Proposed Plan (I)	Proposed Plan (II)
Sales p.a.	6,00,000	8,00,000	10,00,000
Variable Cost	40%	40%	40%
Credit Sales	0	4,38,000	6,57,000
Credit days	0	7 days	14 days
Cash Discount	0	5%	5%
Bad debt	0	4%	6%
Collection cost	0	2%	5%

	Existing Plan (Rs.)	Proposed Plan (I)	Proposed Plan (II)
Increase in sales			
Increase in profit due to increased sale			
Investment in Debtors			
Cost of Debtor			
Bad Debt			
Cash Discount			
Collection Cost			
Increase in profit			