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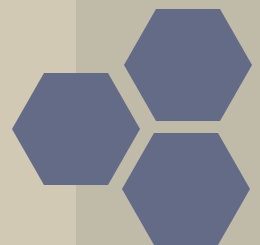


ACCA F9

Financial Management

财务管理

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Part C working capital management V

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what is working capital

2

working capital management

3

working capital finance





Investing surplus cash:

temporary surplus or long-term surplus?

for temporary surplus

——invested in a variety of financial instruments

for long-term surplus

——returned to shareholders if there is a lack of investment opportunities





Working capital finance

For temporary surplus , the company should consider :

- ◆ Liquidity of the investment
- ◆ Profitability of the investment
- ◆ Safety of the investment
- ◆ Fixed interest rate or floating interest rate ?
- ◆ The minimum amount for the investment
- ◆ International market or not

投资途径:

- Cash deposit at bank
- Short-term debt instruments, like treasury bills, CDs
- longer term debt instruments, such as government bonds
- Invested in shares of listed companies





For long-term surplus:

Return to shareholders if no new investment plans

- 1) Increasing the usual level of the annual dividends
- 2) Making a one-off special dividend payment
- 3) Using the money to buy back its own shares from some of its shareholders

If surplus cash is to be invested on a regular basis:

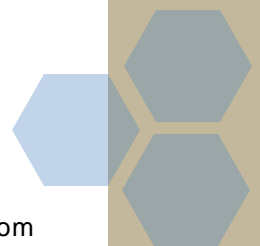
- 1) Surplus funds can only be invested in specified types of investment
- 2) liquidity
- 3) Investments should be ranked
- 4) a credit rating should be obtained for certain financial instrument





与working capital investment有关的一组概念:

- Non-current (fixed) assets
- Permanent current assets: the amount required to meet long-term minimum needs and sustain normal trading activity
- Fluctuating current assets: the current assets which vary according to normal business activity





Working capital investment policy:

A conservative approach: aims to reduce the risk of system breakdown by holding high levels of working capital.

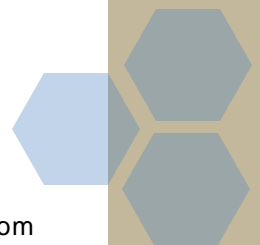
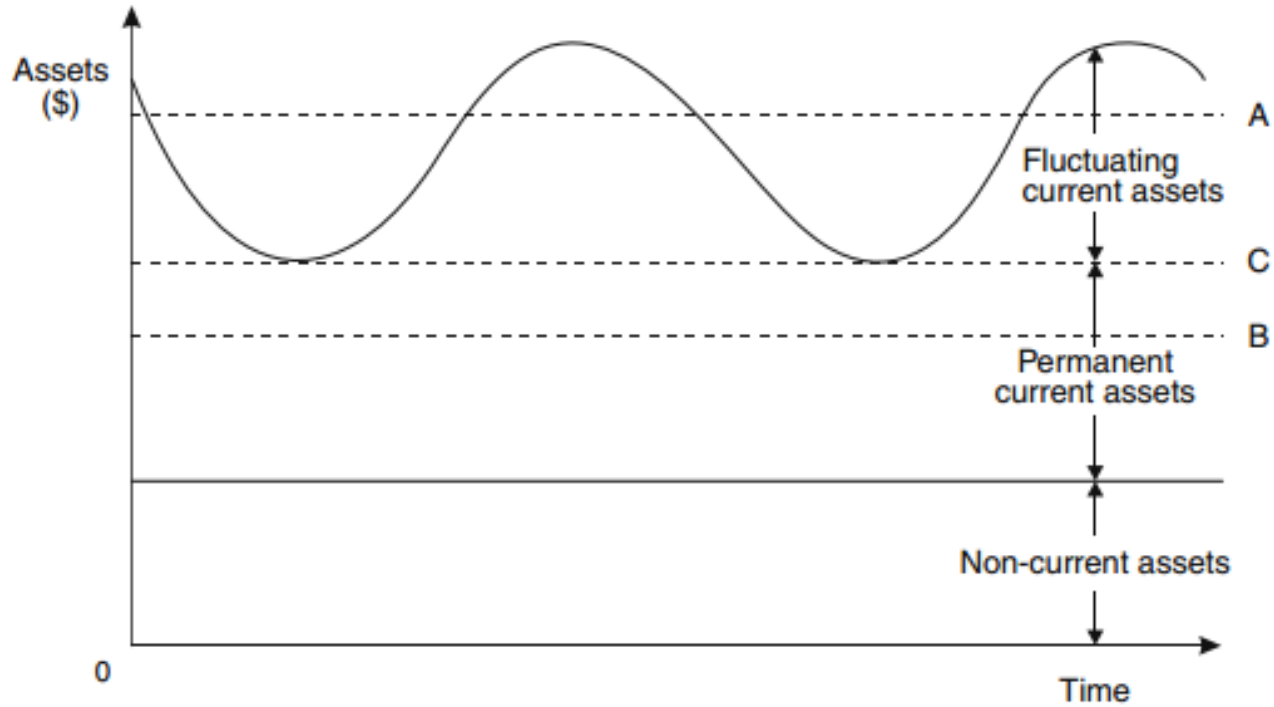
An aggressive approach: aims to reduce this financing cost and increase profitability by cutting inventories, speeding up collections from customers, and delaying payments to suppliers.

A moderate approach: a middle way between the aggressive and conservative approaches.





Working capital finance





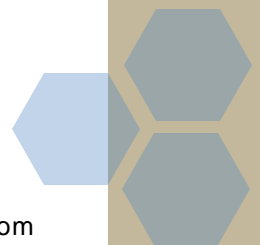
Part C Review

Important models:

- 1) EOQ model & Baumol model
- 2) Reorder level system
- 3) The Miller-Orr model

Cash flow forecast

如何应对account receivable management中的坏账风险？——factoring 概念以及优点





Thank You!

