

BFIN 320 Financial Management: Working Capital

Dr. Mayo Bus. 228 Office Hours: Mon., Tues., Thurs., and Friday: 1:00-2:00 PM

Text: Brigham and Daves: *Intermediate Financial Management: Theory and Practice*, 10th ed., Southwestern.

This text is designed for advanced undergraduate courses and the first course in a MBA program. Specific chapters will be assigned. Most of the assigned problems will be in this text. The cases will be distributed and are consistent with the text. Hence the text serves both the role of a standard textbook and as a resource for problem solving. It is the student's responsibility to determine which material is applicable to the individual problem and case.

*Course description of working capital:* Financial management refers to the management of assets and their financing. Working capital is a subset of financial management and stresses short-term assets and their financing. Hence, this course emphasizes the management of short-term assets (cash and cash equivalents, accounts receivable, and inventory) and various sources of short-term funds (accruals, trade credit, and short-term loans). Since short-term assets may also be financed through intermediate-term loans and leases, these sources of finance are also considered.

*Course purpose:* Working capital policy encompasses the management of short-term assets, their financing, the impact of these decisions of earnings and the risk of the firm. To learn working capital policy, the characteristics and features of short-term assets and short-term liabilities are also covered.

The management of short-term assets revolves around the establishment of the desired level of inventory, the determination of credit policy, and the management of cash and cash equivalents. Holding current assets requires financing. The characteristics and features of the various short-term sources of funds differ. To compare these sources, the differences are expressed in a common denominator: their cost or annual rate of interest. Without this common denominator, it is impossible to determine which sources are the cheapest or which may be the most appropriate from the many possible sources to finance a particular current asset.

Planning for the amount of funds and determining when the funds will be needed requires that the course also encompass the analysis of financial statements, financial planning and forecasting, statistical techniques as they apply to forecasting, and cash budgeting. Since the mismanagement of working capital is a prime cause of financial failure and bankruptcy, the course also includes the implications of bankruptcy and the subsequent liquidation or reorganization of the firm.

*Course requirements and assessment:* In addition to the tests described below, the course requires class participation and the preparation of assigned problems for class discussion and class presentation. This "discovery" technique implies that virtually all of the course material is covered through a series of problems and cases. All problems and cases are presented in teams of two and three students. Depending on the size of the individual class section, each student can expect to present approximately three to four times during the semester. The composition of the teams is changed for each problem and case. The instructor selects the participants, so that each student works with a variety of other students. This strategy forces teamwork, develops oral communication skills, and increases the student's confidence for speaking in front of a group. The course structure and use of presentations also discourages note taking and their subsequent memorization and encourages class participation.

Since it is impossible to determine each student's input and since the problems and cases differ in length and degree of difficulty, students are not graded on their presentations of the problems and cases.

While it is expected that students who are not presenting will make a reasonable effort to work on the assignments, it is unreasonable to expect them to complete all the assignments prior to class, especially since the cases may take several hours to complete. Preparation should increase the quality of class participation and performance on tests, but it is the **individual student's responsibility to determine what is a "reasonable effort."**

*Grading* Final grades will depend on two tests (25% each), the **comprehensive** final exam (50%). Class participation may help or hurt in marginal/borderline cases. The tests will include short questions, problems, and objective questions. The variety of types of testing techniques reduces students' ability to emphasize one type of learning for testing.

*Assignments:* Specific class assignment sheets will be distributed as the semester progresses. As previously stated, all class presentations of problems and cases will be done in teams, the composition of the teams will be assigned, and this composition will change as the semester progresses. The mechanics of the presentations will vary with the nature of the material. It is the responsibility of the team members to prepare and make the presentations. Effort will be made so that the individual student knows well in advance of when his or her presentation is scheduled. If an individual student will be unable to attend when a presentation is scheduled, that student may trade an assignment with another student. The instructor will maintain a tally so that no one avoids presenting or is assigned more presentations than other students.

Presentations **MUST** be accompanied with handouts. Students may write on the board only to expand or correct what they have been distributed. Handouts must be **available at the beginning of class**. Answers may be checked and discussed with the instructor prior to their distribution to the class. The instructor may be contacted using e-mail, voice-mail, during office hours, or at any mutually convenient time.

*Scheduler of Topics (subject to change)*

Financial markets

- Term structure of rates

- Variety of short-term securities

The Analysis of Financial Statements

- Income statement

- Balance sheet

- Changes in financial position

- Importance of non-cash versus cash expenses

Bankruptcy: Liquidation and Reorganization

Forecasting

- Percent of sales

- Regression analysis

- Cash budget

Management of Current Assets

- Inventory

- Accounts receivable and credit policy

- Cash and cash equivalents

Sources of Short-term Funds

- Accruals

- Trade credit (accounts payable)

- Commercial bank loans

- Commercial paper

- Other short-term sources

Leasing and Intermediate-term loans

Pension liabilities