

Lecture 3

- Working Capital Management
- Cash Management
- Inventory Management
- Receivable and Payable Management
- Short Term Financing

Lecture 3.1

Working Capital Management
Chapter 6 (textbook)

- Working Capital Management
- Cash Management
- Inventory Management
- Receivable and Payable Management
- Short Term Financing

WORKING CAPITAL MANAGEMENT

- What is "Working capital"?
- Investment in working capital
- Financing working capital
- Working Capital Characteristics
- Objectives of Working Capital Management

ASSESSING THE LIQUIDITY POSITION

- Ratios
- Cash operating cycle
- Calculating the cash operating cycle
- Overtrading
- Solutions to liquidity problems
- Over capitalization

Working Capital Management

- What is “Working capital”?
- Investment in working capital
- Financing working capital
- Working Capital Characteristics
- Objectives of Working Capital Management

What is “working capital”?

- The amount tied up in working capital is equal to the value of raw materials, work-in-progress, finished goods inventories and accounts receivable less accounts payable
 - Net working capital=Current assets–Current liabilities
- $$= (\text{Cash} + \text{Accounts receivable} + \text{Inventories}) -$$
- $$(\text{Accounts payable} + \text{Accruals})$$

Ex 1

- Praha Company showed the following components of working capital last year

	Beginning	End of year
Accounts receivable	\$ 25,000	\$ 23,000
Inventory	13,000	12,500
Accounts payable	14,000	16,500

What is net working capital during the year?

6

What is “working capital”?

KEY CURRENT ASSETS AND LIABILITIES	
Current assets	Current liabilities
Cash	Trade accounts payables
Inventory of raw materials	Taxation payable
Inventory of work in progress	Dividend payments due
Inventory of finished goods	Short-term loans
Amounts receivable from customers	Long-term loans maturing within one year
Marketable securities	Lease rentals due within one year

What is “working capital”?

- Working capital management is crucial to the effective management of a business because:
 - Current assets comprise over half the assets of some companies
 - A failure to control working capital and therefore liquidity, is a major cause of business failure
- Two questions must be considered:
 - How much to invest in working capital?
 - How to finance it?

Investment In Working Capital

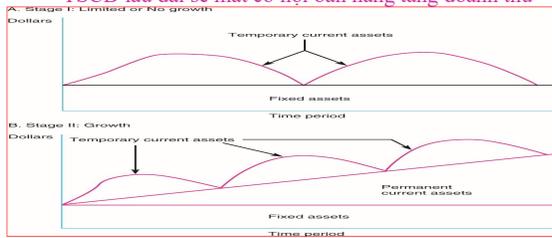
- **Working capital policy**
 - Working capital policy of a company refers to the level of investment in current assets for attaining their targeted sales
 - It can be of three types: restricted, relaxed, and moderate
 - **Relaxed policy** has higher levels of current assets
 - **Restricted policy** has lower levels of current assets
 - **Moderate policy** places itself between relaxed and restricted

Financing Working Capital

- Long term
 - Equity
 - New share issues
 - Retained profits
 - Debt
 - Debentures
 - Long-term bank loans
- Short term
 - Overdraft - expensive as it is flexible
 - risky as repayable on demand
 - Accounts payable – appears cheap but refusing quick settlement discounts can be expensive

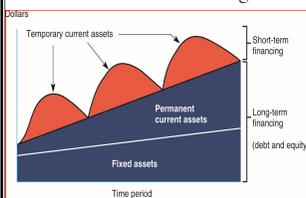
Financing Working Capital

- Failure to realize the firm's permanent current assets causes the problems of inadequate financing
- khi cty tăng trưởng, cty không dự trữ một lượng TSCĐ lâu dài sẽ mất cơ hội bán hàng tăng doanh thu



Financing Working Capital

- Pattern of Financing

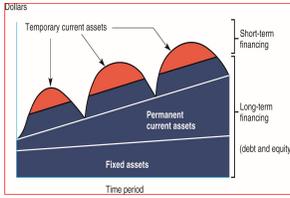


-The most appropriate financing pattern is that asset buildup and length of financing terms are perfectly matched
 -The difficulty is in determining precisely what part of current asset is temporary and what part is permanent
 -The exact timing of asset liquidation is a difficult matter

nhu cầu tài trợ ngắn hạn thường xuyên: do đặc điểm luân chuyển vốn cty
 Nhu cầu tài trợ thời vụ: do thời vụ ngành kinh doanh quyết định.

Financing Working Capital

• Pattern of Financing

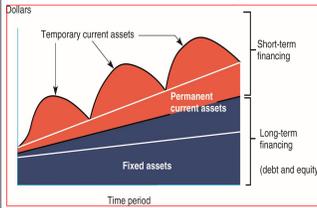


To protect against the danger of not being able to provide adequate short-term financing in tight money periods, the financial manager may rely on long-term funds to cover some short-term needs

Khi kinh tế bùng nổ, mọi công ty cần vốn => nhu cầu vốn thời vụ ngắn hạn tăng cao => lãi suất tăng

Financing Working Capital

• Pattern of Financing



–Many small businesses find it hard to access to long-term capital, what should they do?
–What are the advantages of the short-term financing?

Công ty nhỏ khó khăn khi tiếp cận vốn dài hạn => vay ngân hàng hay tín dụng thương mại

Financing Working Capital

Toward an Optimal Financing Working Capital Policy

Financing Plan	Asset Liquidity	
	Low Liquidity	High Liquidity
Short-term	1 High profit High risk	2 Moderate profit Moderate risk
Long-term	3 Moderate profit Moderate risk	4 Low profit Low risk

1 Most aggressive asset – financing mix plan

4 Most conservative asset – financing mix plan

2, 3 Moderate approach

Objectives of Working Capital Management

- To ensure it has **liquid resources** to continue in business
- To **increase its profitability**

ASSESSING THE LIQUIDITY POSITION

- Ratios
- Cash operating cycle
- Calculating the cash operating cycle
- Overtrading
- Solutions to liquidity problems
- Over capitalization

Ratios

- Liquidity ratios
 - Current ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$; a ratio in excess of 1 should be expected, but what is 'comfortable' varies between different types of businesses
 - Quick Ratio = $\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$; This ratio should ideally be at least 1 for companies with a slow inventory turnover

Ex 2

- Praha Company showed the following components of working capital last year

	Beginning	End of year
Accounts receivable	\$ 25,000	\$ 23,000
Inventory	13,000	12,500
Accounts payable	14,000	16,500
Current liabilities	25,000	30,000

What is Current ratio, Quick Ratio at beginning and End of year?

19

Ratios

- Efficiency ratios

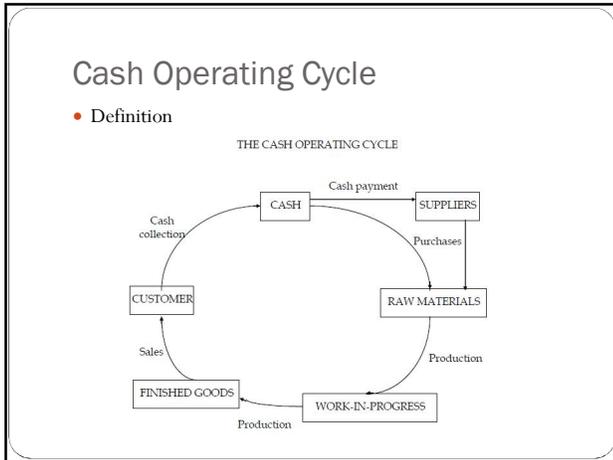
➤ Inventory Turnover = $\frac{COGS}{Average\ Inventory}$: shows how quickly inventory is sold

➤ Accounts receivable' turnover = $\frac{Credit\ sales}{Average\ accounts\ receivable}$
: show how quickly debts are collected

➤ Accounts payable turnover = $\frac{Credit\ purchases}{average\ accounts\ payable}$: show how quickly accounts payable for supplies received on credit are paid

Ex3

- Credit sales = 500,000 ;
- Accounts receivable at begin = 200,000
- Accounts receivable at the end = 300,000
- Cal Accounts receivable' turnover ?



Cash Operating Cycle

1. Defining the Operating and Cash cycle:

- The entire cycle from the time we acquire inventory to the time we collect the cash
- Operating cycle describes how a product moves through the current asset accounts

- Calculate

Operating Cycle= Inventory period + Accounts Receivable period
 Cash Cycle= Operating Cycle - Accounts payable period

Cash Operating Cycle

- Calculate

- (1) Raw materials inventory holding period = $\frac{\text{Average stock of raw materials}}{\text{Annual Purchases}} * 365$
- (2) Accounts payable payment period = $\frac{\text{Average Account payable}}{\text{Annual credit purchases}} * 365$
- (3) Average production period = $\frac{\text{Average stock of work in progress}}{\text{annual cost of sales} * \text{Degree of completion of WIP}} * 365$
- (4) Inventory turnover period (Finished goods) = $\frac{\text{Average stock of finished goods}}{\text{Annual cost of sales}} * 365$
- (5) Accounts receivable payment period = $\frac{\text{Average account receivable}}{\text{annual credit sales}} * 365$
- (6) Cash Operating cycle = (1)-(2)+(3)+(4)+(5)

Example 4

Tipple Plc has the following estimated figures for the coming year:
 Sales \$3,600,000
 Gross profit margin 25%
 Finished goods Inventory \$200,000
 Work in Progress Inventory \$350,000
 Raw Materials Inventory \$150,000
 Accounts payable \$130,000
 Work-In-Progress (WIP) is 80% complete. Purchases represent 60% of production cost.
 Account receivable: \$306,000

Ex5

- A-Company, sales increase by 70,000 if credit were extend to these customer. The new accounts receivable related to these sales, 8% would be uncollectible. Costs would be 4% of sales, and selling and collection costs would be 80% of sale.
 Tax rate: 30%
- a. / income after tax
- b. / the percentage return on new sales?
- c. / Account receivable ?

Ex6

- B-company has annual credit sales of 1,900,000 and accounts receivable of 180,000. What is the average collection period?

Cash Operating Cycle

- The length of operating cycle is affected by various factors
 - e.g.
 - Type of industry
 - Liquidity and profitability trade
 - Efficiency of management

Overtrading

- Overtrading occurs when a company tries to support a large volume of trade from a small working capital base
- It can also be referred to as under-capitalization and often occurs when a business grows very rapidly without increasing its level of long-term finance
- The result can be a liquidity crisis
- Indicators of overtrading
 - Decline in liquidity
 - Rapid increase in turnover
 - Increase in inventory days
 - Increase in accounts receivable days
 - Increase in short-term borrowing and a decline in cash holdings
 - Large and rising overdraft
 - Reduction in profit margin
 - Increase in ratio of sales to fixed assets

Overtrading

- Solutions to liquidity problems
 - Reducing the inventory-holding period for both finished goods and raw materials
 - Reducing the production period – not easy to do but it might be worth investigating different machinery or working methods
 - Reducing the credit period extended to accounts receivable, and tightening up on cash collection
 - Increasing the period of credit taken from suppliers
 - An increase in the level of long-term finance
 - Reducing the level of sales growth to a more sustainable level

Over-capitalization

- If there is excessive inventories, accounts receivable and cash, and very few accounts payable, there will be an over-investment by the company in current assets.
- Working capital will be excessive and the company will be over-capitalized

Ex 7

- Praha Company showed the following components of working capital last year

	Beginning	End of year
Accounts receivable	\$ 25,000	\$ 23,000
Inventory	13,000	12,500
Accounts payable	14,000	16,500

Credit sales for the year just ended \$50,000, and the cost of goods sold was \$30,000

Determine (*):

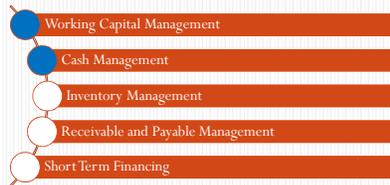
1. How long does it take Slowpay to collect on its receivables ?
2. How long does merchandise stay around before it sold ?
3. How long does Slowpay stay to pay its bills ?
4. What are the Operating Cycle and Cash Cycle ?

32

Lecture 3.2

Cash Management

Chapter 7 (textbook)



Reasons For Holding Cash

- **Transactions motive:** to provide sufficient liquidity to meet current day-to-day financial obligations, e.g. payroll, the purchase of raw materials, etc.
- **Precautionary motive:** a cash reserve to give cushion against unplanned expenditure. This reserve may be held in the form of “cash equivalents” – short-term, low risk, highly liquid investments, e.g. treasury bills.
- **Speculative motive** – to quickly take advantage of investment opportunities that may arise
- **Compensating balances for banks**

It's inefficiency if the firm holds excessive levels of cash.

Holding cash has a cost – the **loss of earnings** which would otherwise have been obtained by using the funds in another way. The financial manager must try to balance liquidity with profitability

Cash Flow Problems

- **Making losses**
- **Inflation**
- **Growth**
- **Seasonal business**
- **One-off items of expenditure**
- **Float**

Cash Flow Problems

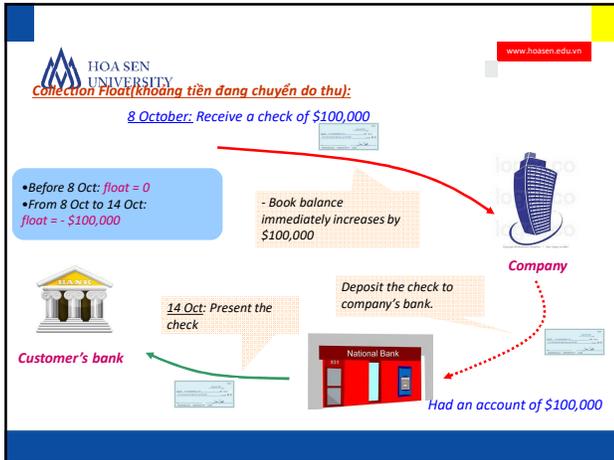
Float(đang chuyển):

- Float is the difference between the corporation's recorded amount and the amount credited to the corporation by the bank.

$$\text{Float} = \text{Available balance} - \text{Ledger balance (book balance)}$$

Tiền đang chuyển = tồn quỹ TK NH – Tồn quỹ kế toán

- Checks written by a firm generate disbursement float.
- Checks received by the firm create collection float



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1. Disbursement Float (cont'd) - Giải ngân tiền đang chuyển
Checks written by a firm generate Disbursement float
(Séc được viết bởi một công ty tạo ra giải ngân đang chuyển)
- Disbursement float causes a decrease in the firm's book balance, but no change in its available balance
(Sự giải ngân sẽ làm giảm số dư tài khoản của công ty, nhưng không có sự thay đổi về số dư có sẵn)
- Company writing the check can obtain the benefit of this cash during the period of check clearing
(Công ty viết séc có thể thu được lợi ích của khoản tiền này trong thời gian thanh toán bù trừ)

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Collection Float (khoảng tiền đang chuyển do thu):

Float = Available balance - Ledger balance (book balance)
Available balance - the balance shown on the bank account
Ledger balance - the cash balance that a firm shows on its books

Vị thế tiền trước 8/10
Tiền đang chuyển = tồn quỹ tk NH - tồn quỹ TK kế toán = 100,000 - 100,000 = 0
Vị thế tiền mất từ 8/10 - 14/10
Tiền đang chuyển = 100,000 - 200,000 = -100,000



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2.Collection Float and Net Float (cont'd)
 (Thu thập tiền đang chuyển do thu và Tiền đang chuyển rỗng)
 -Checks received by the firm create Collection float
 (Séc được nhận bởi doanh nghiệp tạo ra tiền đang chuyển do thu)
 -The net flow at a point in time is the overall difference between the firm's available balance and its book balance
 (Dòng tiền rỗng tại một thời điểm là sự khác biệt tổng thể giữa số dư có sẵn của công ty và số dư sổ sách)



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2.Collection Float and Net Float (cont'd)
 (Thu thập tiền đang chuyển và Tiền đang chuyển rỗng)
 -Net float is positive, the firm's disbursement float exceeds its collection float or the available balance exceeds its book balance
 (Tiền đang chuyển rỗng là dương, số dư có sẵn vượt quá số dư sổ sách)
 Net Float= sum of the total collection + sum of the total disbursement
 Tiền đang chuyển rỗng = Tổng cộng tất cả tiền thu + Tổng cộng tất cả tiền giải ngân
 Net float = +100,000 + (-100,000)= 0



Mearsure Float

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- Each month, mail a check of 500. The Total delay 9 days

a./What is your average daily collection float?
 b./ What is the meaning of average daily disbursement?
 =>
 a./ average daily collection float= (9 x500)/30 = 150
 b./ the meaning of average daily disbursement is book balance is \$150 less than the available balance.


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Measure Float

- Each month, receive two items:
 1. Receipt \$5 million (total delay 9 days)
 2. Receipt \$3 million (total delay 5 days)

a./What is your average daily collection float?

Average Daily Float = Average daily receipts x Weighted average delay

=>

Average daily receipts= $8/30 = \$266,666.67$

Weighted average delay = $5/8 * 9 + 3/8 * 5 = 7.5$ days

average daily collection float= $\$266,666.67 * 7.5 = \2 millions

the meaning of average daily disbursement is book balance is \$2 less than the available balance.


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Ex1

- Each business day, on average company checks totaling \$ 17,000 to pay its suppliers. The usual clearing time for checks is four days, Meanwhile the company is received payments from its customers each day.in the from of checks. Totaling \$29,000. The cash from the payments is available to the firm after two days

Cal disbursement float, collection float, Net float.?


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Ex2

- the XYZ company is received payments from its customers each day.in the from of checks. Totaling \$135,000.these are delayed 5 days on average, What is the average daily float?


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- the Xinhgai company a month and picks up 2 checks \$13,000 and \$ 4,000. larger checks takes four days, smaller one takes five days.

a./Average daily receipts?
 b./Weighed average delay ?
 c./Average daily collection float ?

3.Float Management

- Should speed up collections
- reduce the lag between the time customers pay their bills and the time the cash becomes available
- control payments and minimize the firm's costs associated with making payments

Cash Flow Forecasts

- **Cash flow forecasts** show the expected receipts and payments during a forecast period and are a vital management control tool, especially during times of recession.
- A simple pro-forma is given below:
 - Sales volume
 - Revenue
 - Costs
 - One-off expenses
- Typical format (*the following slide*)

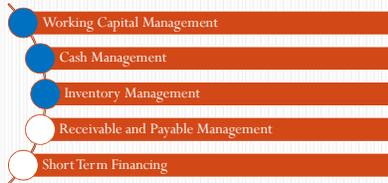
Usefulness of Cash Flow Forecasts

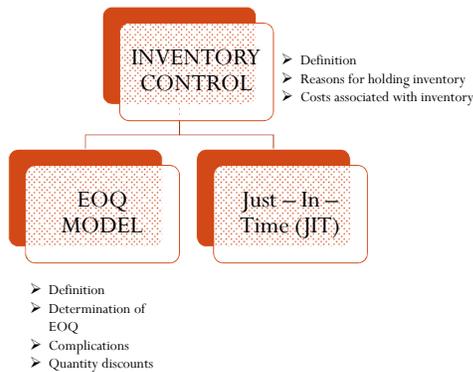
- give management an indication of potential problems that could arise and allows them the opportunity to take action to avoid such problems
- A cash flow forecast can show four positions

Cash position	Appropriate management action
Short-term surplus	Pay accounts payable early to obtain discount Attempt to increase sales by increasing accounts receivable and inventories Make short-term investments
Short-term deficit	Increase accounts payable Reduce accounts receivable Arrange an overdraft
Long-term surplus	Make long-term investments Expand Diversify Replace/update non-current assets
Long-term deficit	Raise long-term finance (such as via issue of share capital) Consider shutdown/disinvestment opportunities

Lecture 3.3

Inventory Management Chapter 7 (textbook)





Definition

- The systematic regulation of inventory levels
- If inventory is too high: inefficient => profit produced
- If inventory is too low: insufficient to satisfy customers => profit produced

Reasons for holding inventory

- to reduce the risk of stockouts
- To ensure continuous production
- To take advantage of quantity discounts
- To buy in ahead of a shortage or ahead of a price rise
- For technical reasons
- To ordering costs

Costs Associated With Inventory

- Purchase price
- Holding costs
 - Cost of capital tied up
 - Insurance
 - Deterioration, obsolescence and theft
 - Warehousing
 - Stores administration
- Re-order costs
 - Transport costs
 - Clerical and administrative expenses
 - Batch set-up costs for goods produced internally
- Shortage costs
 - Production stoppages caused by lack of raw materials
 - Stockout costs for finished goods
 - Emergency re-order costs
- Systems costs – people and computers

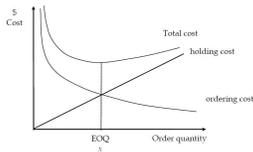


EOQ Model

- Definition
 - The Economic Order Quantity (EOQ) is the quantity of inventory that should be ordered each time a purchase order is made
 - EOQ aims to minimize the costs which are relevant to ordering and holding inventory

EOQ Model

- Determination of EOQ
 - EOQ graph



- Assumption of EOQ
 - ✓ Purchase price per units is constant
 - ✓ Constant demand
 - ✓ No risk of stockouts

EOQ Model

- Determination of EOQ
 - The total annual relevant cost to be minimized = annual holding cost + annual order cost
 - = The cost of holding one unit in inventory for one year * the average number of units held + The cost of an order * the number of orders in a year

$$= C_H \frac{x}{2} + D \frac{C_0}{x}$$

The total cost is minimized when:

$$x = \sqrt{\frac{2C_0D}{C_H}}$$

X=order quantity
 C_H= cost of holding one unit for one year
 D = annual demand
 C₀ = cost of placing an order

EOQ Model

- Example 1: using the following data calculate the EOQ

$D = 40,000$ units

$C_0 = \$2$

$C_H = \$1$

EOQ Model

- Example 2: using the following data calculate the EOQ

$D = 20,000$ units

$C_0 = \$3$

$C_H = \$1,5$

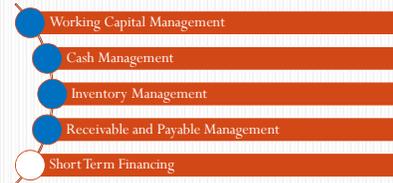
Just-In-Time

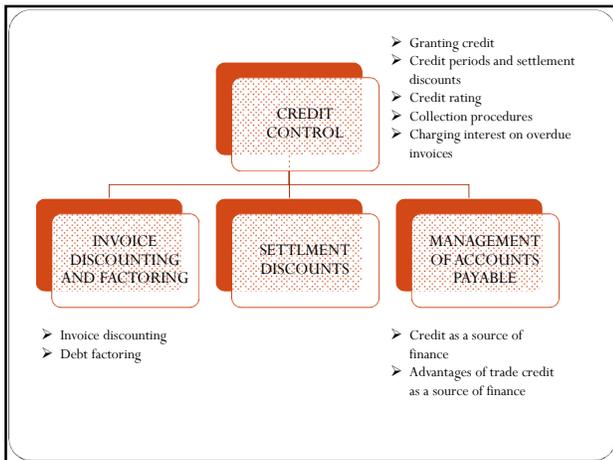
- Production and purchasing are linked closely to sales demand on a week-to-week basic
- The aim is to create a continuous flow of raw materials inventory into work progress, which becomes finished goods to go immediately to the customer
- Condition necessary:
 - Flexibility of both supplier and internal workforce
 - Quality must be maintained at every stage
 - Close working relationship with supplier to make immediate deliveries
 - High technology production methods have made this easier to achieve

Lecture 3.4

Receivable and Payable Management

Chapter 7 (textbook)





Credit Control

- Granting credit
 - Should credit be granted at all? Consider normal trade practice, but also consider leading a change. Providing credit may stimulate sales
 - What is the true cost to the business of customer credit? This will be influenced by the **risk of bad debts** and the **cost of financing accounts receivable**.
 - **Offering credit has a cost:**
 - the value of the interest charged on an overdraft to fund the period of credit
 - The interest lost on the cash not received and deposited in the bank

Credit Control

- Credit Periods and Settlement Discounts
 - **Credit periods** can be changed to respond to competition but will be largely influenced by trade custom
 - **Settlement discounts** – influenced largely by accepted practice within the industry. The company must ensure the discounts allowed expense does not exceed the benefit in terms of reduced finance costs.

Credit Control

- **Credit rating:** this is a crucial policy area. The company must balance the risk inherent in granting credit against the necessity to allow enough credit to support the level of business
- Credit limits should be set for all accounts, based upon:**
 - an assessment of the customer's financial statements
 - Use of credit rating agencies (**Standard & Poor's, Moody's...**)
 - Contacting credit managers in other firms to exchange information
 - References from the customer's bank or accountant
 - Impression of credit-worthiness gained when visiting customers' premises and meeting the management
 - Review of the aged account receivables ledger to identify customers who have significant debts outstanding for long periods

Credit Control

- **Collection procedures**
 - Establishing timings for issuing letters of demand, making chasing telephone calls, and the point when further deliveries should stop
 - Decide when outside assistance is needed to collect overdue debts. Lawyers, trade associations and debt collection agencies may be considered.
- **Charging interest on overdue invoices**

Invoice Discounting and Factoring

- Invoice discounting
 - Definition: selling selected sales invoices to a third party for a discounted cash sum
- Factoring
 - A range of services in the area of sales administration and the collection of amounts due from customers

Settlement Discounts

- To offer credit customers a discount if they pay within a certain number of days
- To decide if this is a good policy, the cost of the discount must be compared to the cost of financing accounts receivable (overdraft rate)
- To allow a fair comparison the cost of the discount must be expressed as an annual effective cost.

Cash Operating Cycle

- Calculate
- (1) **Raw materials inventory holding period** = $\frac{\text{Average stock of raw materials}}{\text{Annual Purchases}} * 365$
- (2) **Accounts payable payment period** = $\frac{\text{Average Account payable}}{\text{Annual credit purchases}} * 365$
- (3) **Average production period** = $\frac{\text{Average stock of work in progress}}{\text{annual cost of sales} * \text{Degree of completion of WIP}} * 365$
- (4) **Inventory turnover period (Finished goods)** = $\frac{\text{Average stock of finished goods}}{\text{Annual cost of sales}} * 365$
- (5) **Accounts receivable payment period** = $\frac{\text{Average account receivable}}{\text{annual credit sales}} * 365$
- (6) **Cash Operating cycle** = (1)-(2)+(3)+(4)+(5)

Settlement Discounts

- **Example 1:**
 - Dodgy LTD has sales of \$100,000 and accounts receivable days of 60. it pays overdraft interest at 18%
 - It is considering a discount of 2% to customers who pay within 10 days. It is estimated that 50% of customers will take the discount.
 - Required: calculate the impact on annual profit of the discount

Settlement Discounts

- **Answer to Example 2:**

Current account receivable = $100,000 * \frac{60}{365} = 16,438$

New accounts receivable = $(100,000 * 50% * \frac{10}{365}) + (100,000 * 50% * \frac{60}{365}) = 1,370 + 8,219 = 9,589$

	\$
Reduced interest expense $(16,438 - 9,589) * 18%$	1,233
Discount allowed expense $100,000 * 50% * 2%$	(1,000)
Increased profit	233

Settlement Discounts

- **Example 2:**
 - Hoanghon.LMT has sales of \$200,000 and accounts receivable days of 45. it pays overdraft interest at 18%
 - It is considering a discount of 3% to customers who pay within 10 days. It is estimated that 60% of customers will take the discount.
 - Required: Calculate the impact on annual profit of the discount

Management Of Trade Accounts Payable

- **Credit as a source of finance**
 - Firms can use trade credit as a flexible source of short term finance
 - The annual effective cost of refusing a discount should be calculated. This should be compared to the cost of financing working capital (overdraft rate)
 - If the cost of refusing discount > overdraft rate then the discount should be accepted.
- **Advantages of trade credit as a source of finance**
 - Convenience and informal
 - Can be used if unable to obtain credit from financial institutions
 - Can be used on a short term basis to overcome unexpected cash flow crises

Management Of Trade Accounts Payable

- **Example 1:**
 - A company currently takes 40 days credit from its suppliers, believing this to be free finance
 - Annual purchase are \$100,000 and the company pays overdraft interest at 13%
 - Payment within 15 days would attract a 1 1/2 % quick settlement discount
 - Required:
Calculate the effect on the profit and loss account of accepting the discount

Management Of Trade Accounts Payable

- **Answer for Example 1:**
 - Current account payable = $100,000 \times \frac{40}{365} = \$10,959$
 - New accounts payable = $100,000 \times \frac{15}{365} = \$4,110$
 - Increased interest expense $(4,110 - 10,959) \times 13\% = \890
 - Discounts received $(100,000 \times 1.5\%) = \$1,500$
 - Increase in profit = $1,500 - 890 = \$610$
 - Conclusion: the discount should therefore be accepted.



Management Of Trade Accounts Payable

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Example 3:

- Z company currently takes 60 days credit from its suppliers, believing this to be free finance
- Annual purchase are \$150,000 and the company pays overdraft interest at 15%
- Payment within 15 days would attract a 2% quick settlement discount
- Required :

Calculate the effect on the profit and loss account of accepting the discount?



Example 4:

During 2016, Baker Company and Baumer Company made the following identical purchases:

- 100 units @\$10.00
- 200 units @\$10.50
- 200 units @\$11.50
- 200 units @\$12.00

Each company sold 350 units, but Baker uses LIFO inventory valuation and Baumer uses FIFO inventory valuation. Assume there was no beginning inventory.

a. Calculate ending inventory and cost of goods sold for each company
b. How will the difference in cost of goods sold affect net income?



Example 5:

Allis Sport Shop projects the following sales:

- April \$75,000
- May \$95,000
- June \$110,000

Ninety percent of Ellis' sales are on credit with 60 percent of receivables collected in the month after the sale and the rest of receivables collected in the second month after the sale. February sales were \$60,000 and March sales were \$70,000. In the past Ellis' bad debt percentage has been 0 and is expected to continue.

a. Prepare a monthly schedule of cash receipts for April to June
b. What is the balance of receivables at the end of June?

 **Example 6:** www.hoasen.edu.vn

CMS produces a product with the following costs as of June 1, 200X:

- Material \$ 6
- Labor 4
- Overhead 2

\$12

- Beginning inventory at these costs on June 1 was 6,000 units. From June 1 to July 1, CMS produced 16,000 units. These units had a material cost of \$12 per unit. The costs for labor = 6 and overhead were the same. CMS uses FIFO inventory accounting. Assuming that CMS sold 16,000 units during the last six months of the year at \$25 each,

What would gross profit be?

The end

-  Working Capital Management
-  Cash Management
-  Inventory Management
-  Receivable and Payable Management
-  Short Term Financing
