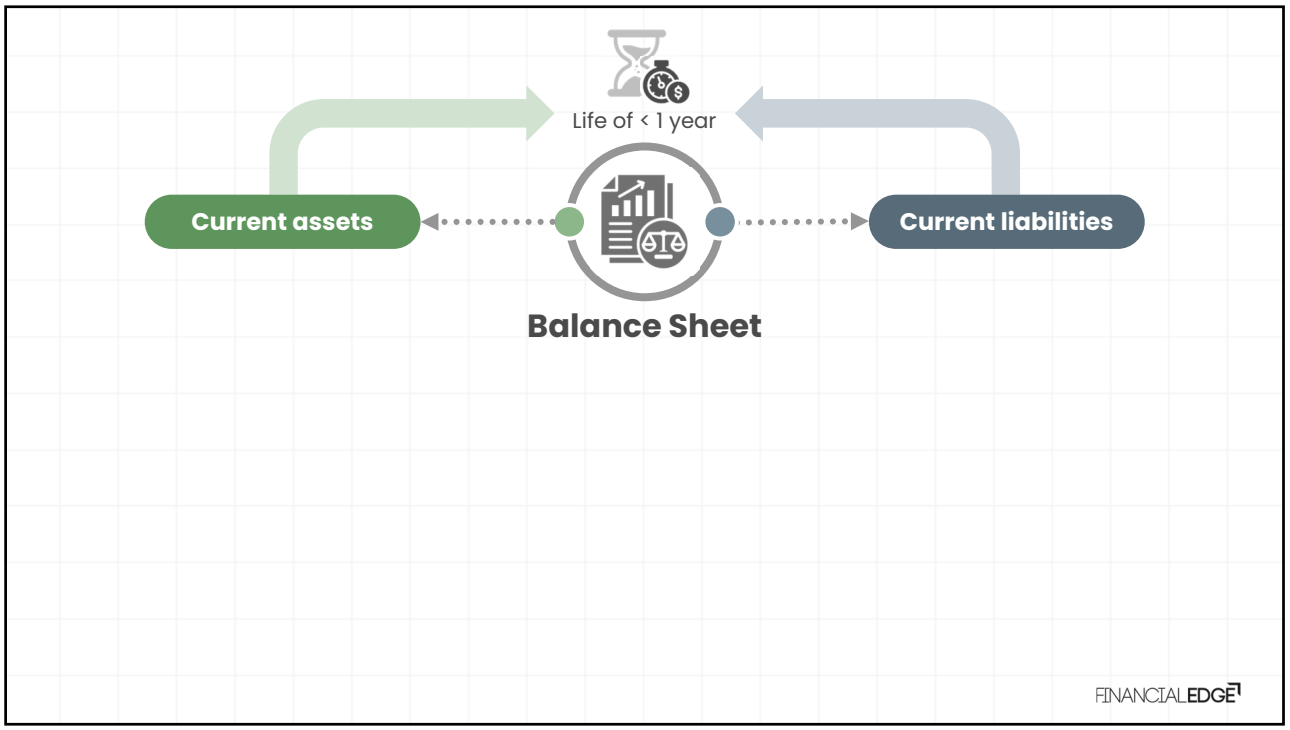
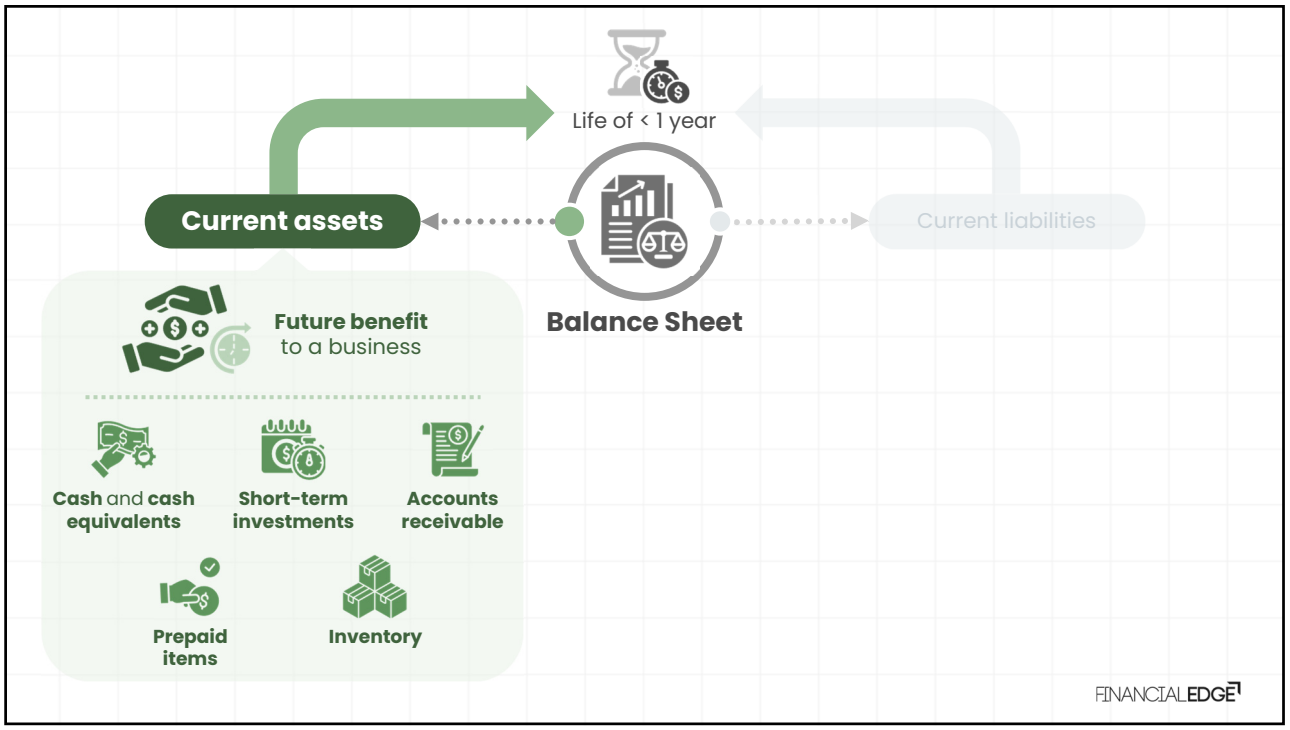


Current Assets and Current Liabilities

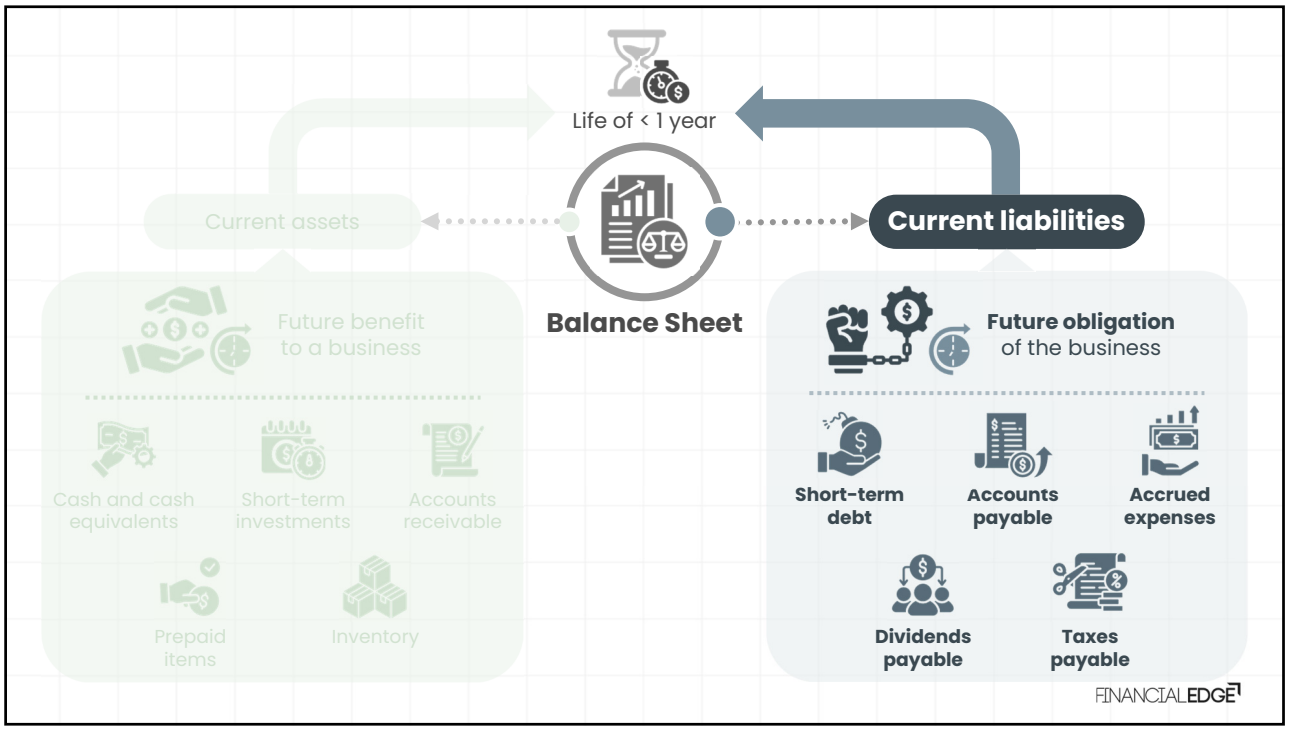
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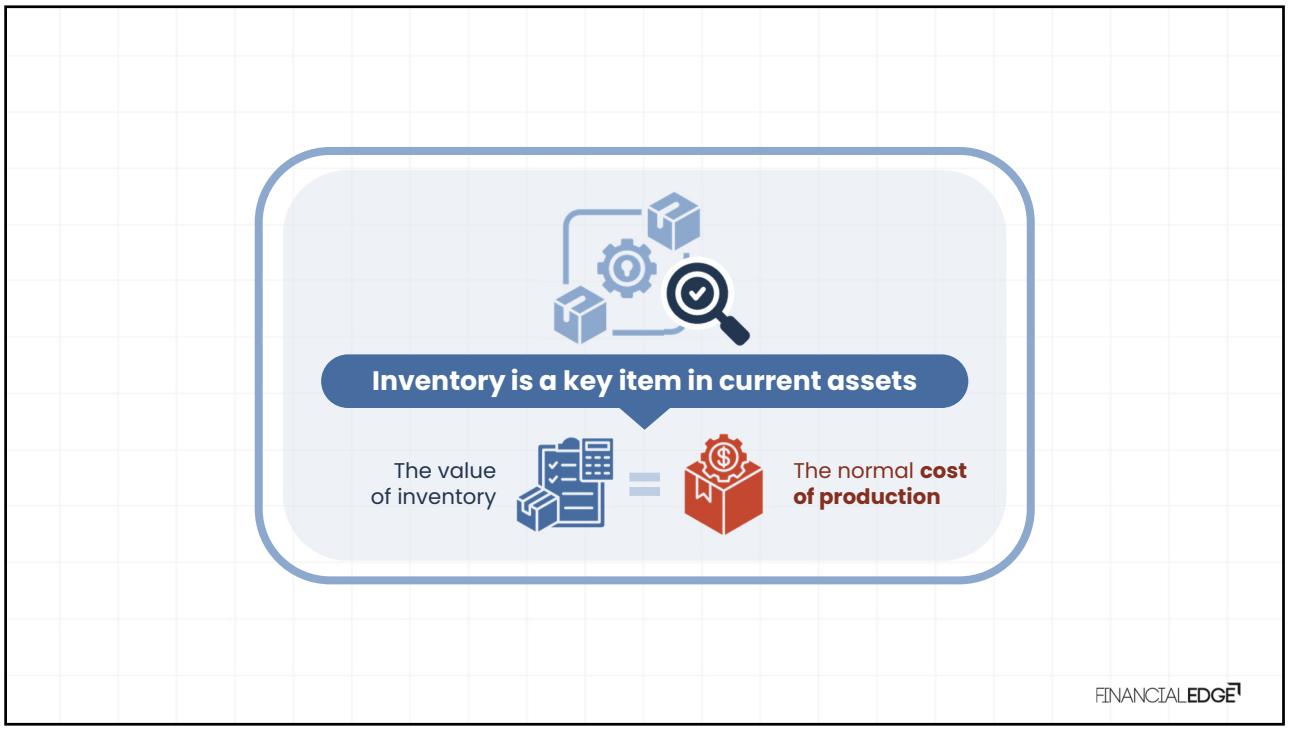
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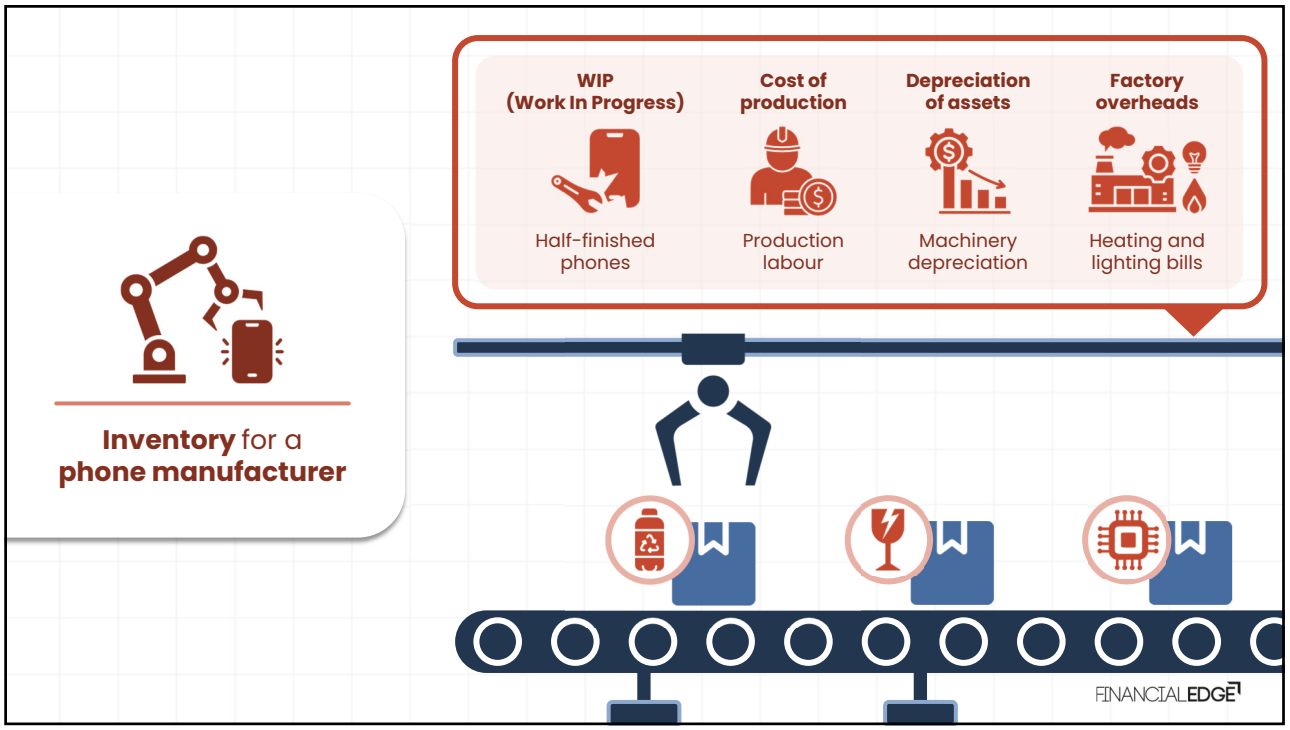


Inventory Valuation

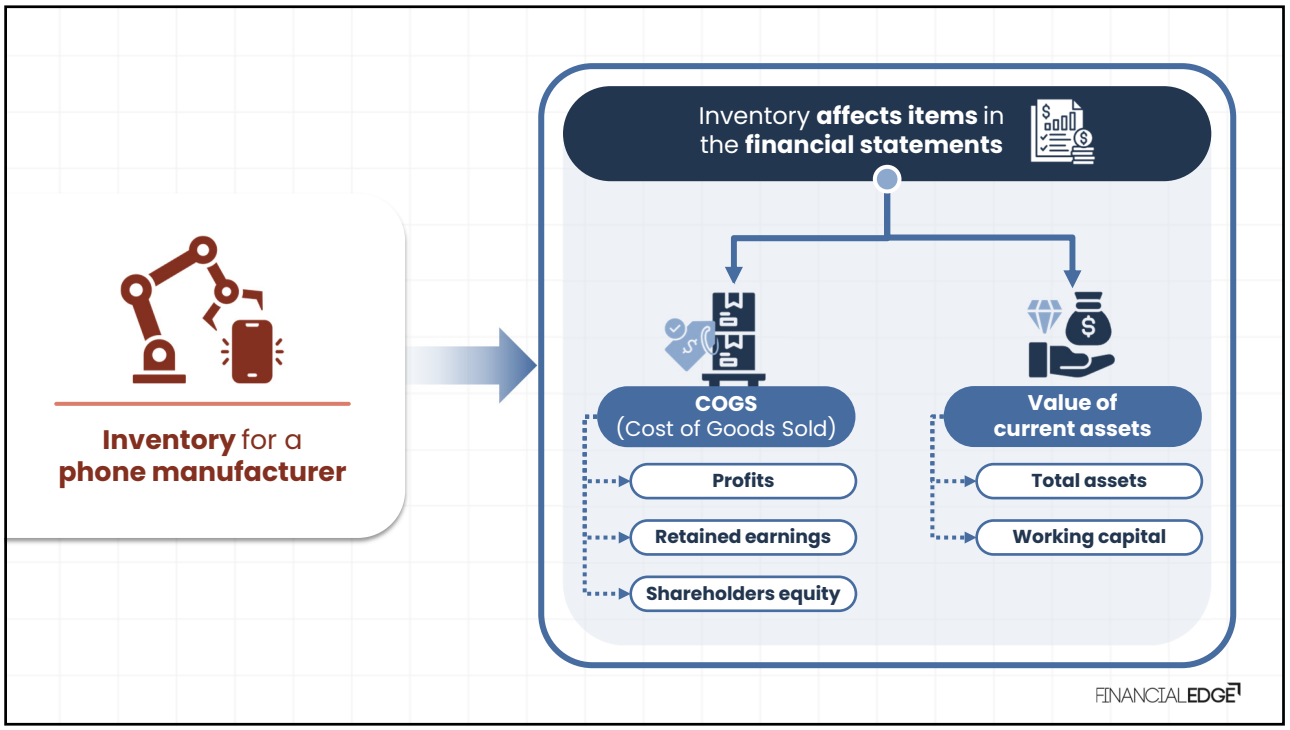
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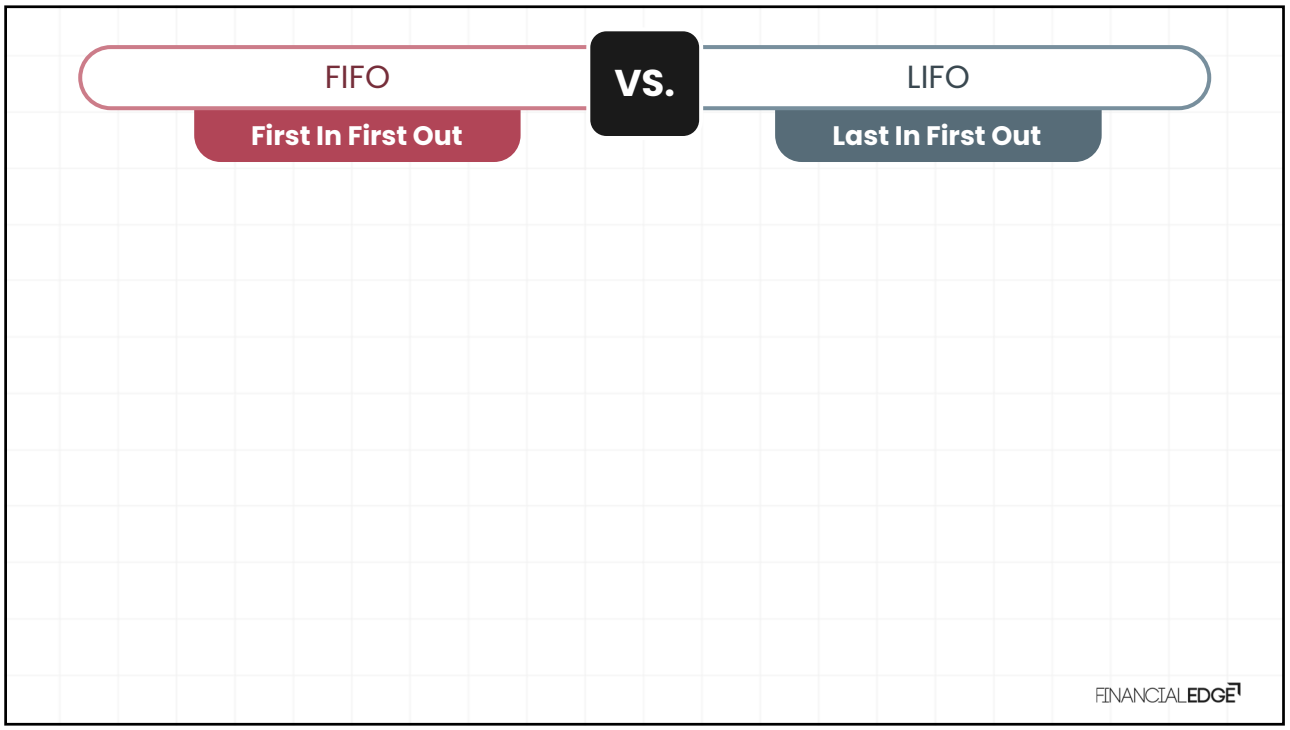


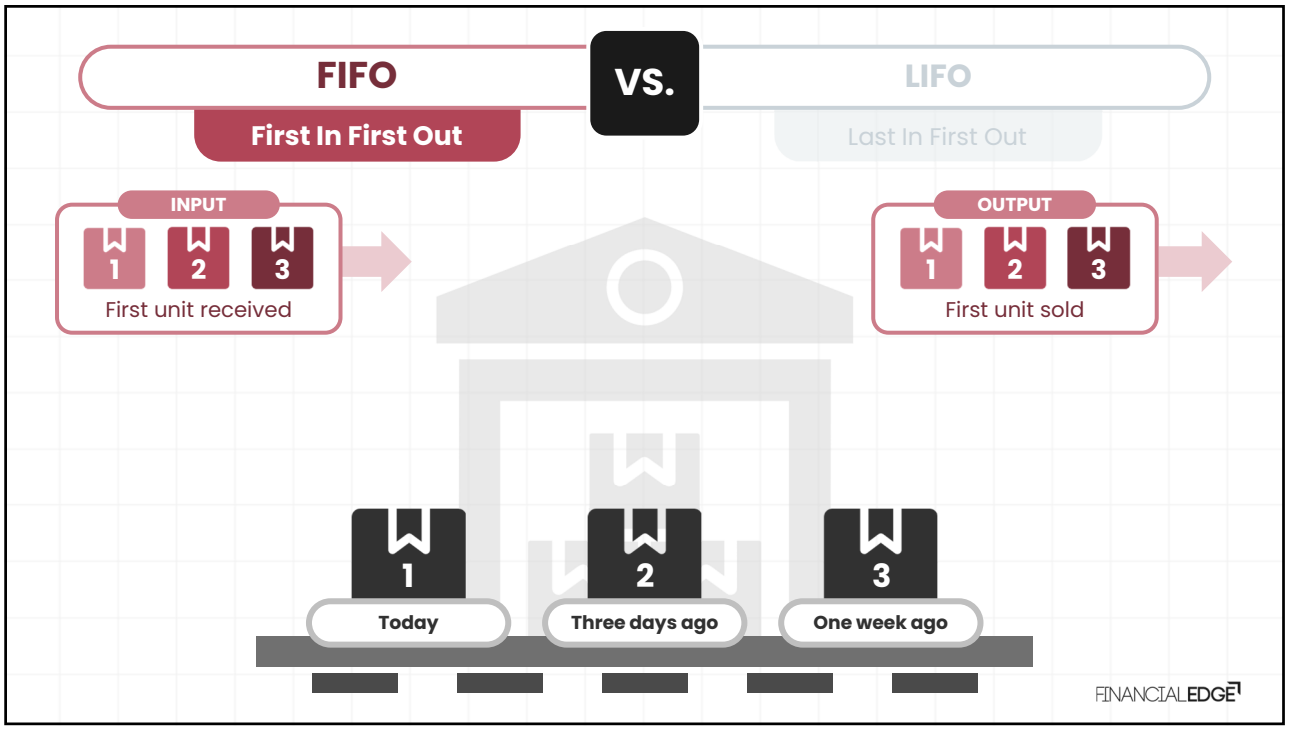
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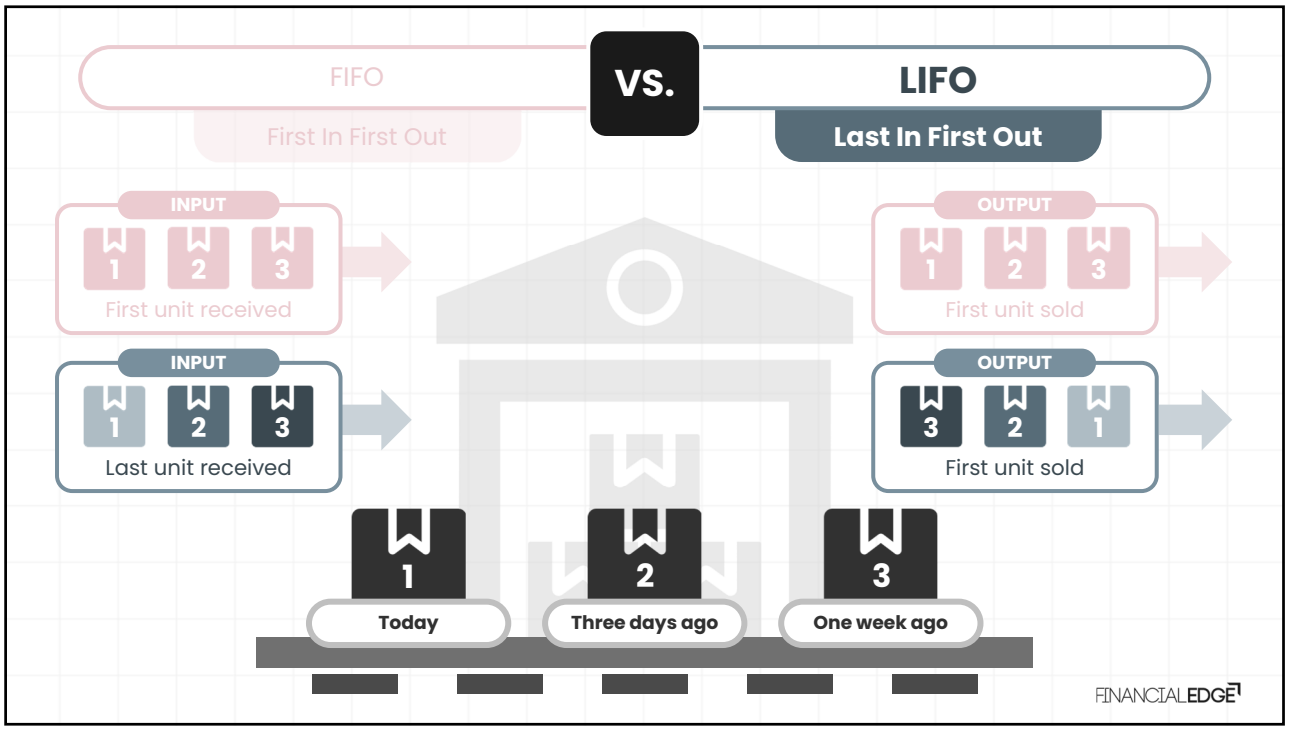
Inventory Valuation – FIFO and LIFO

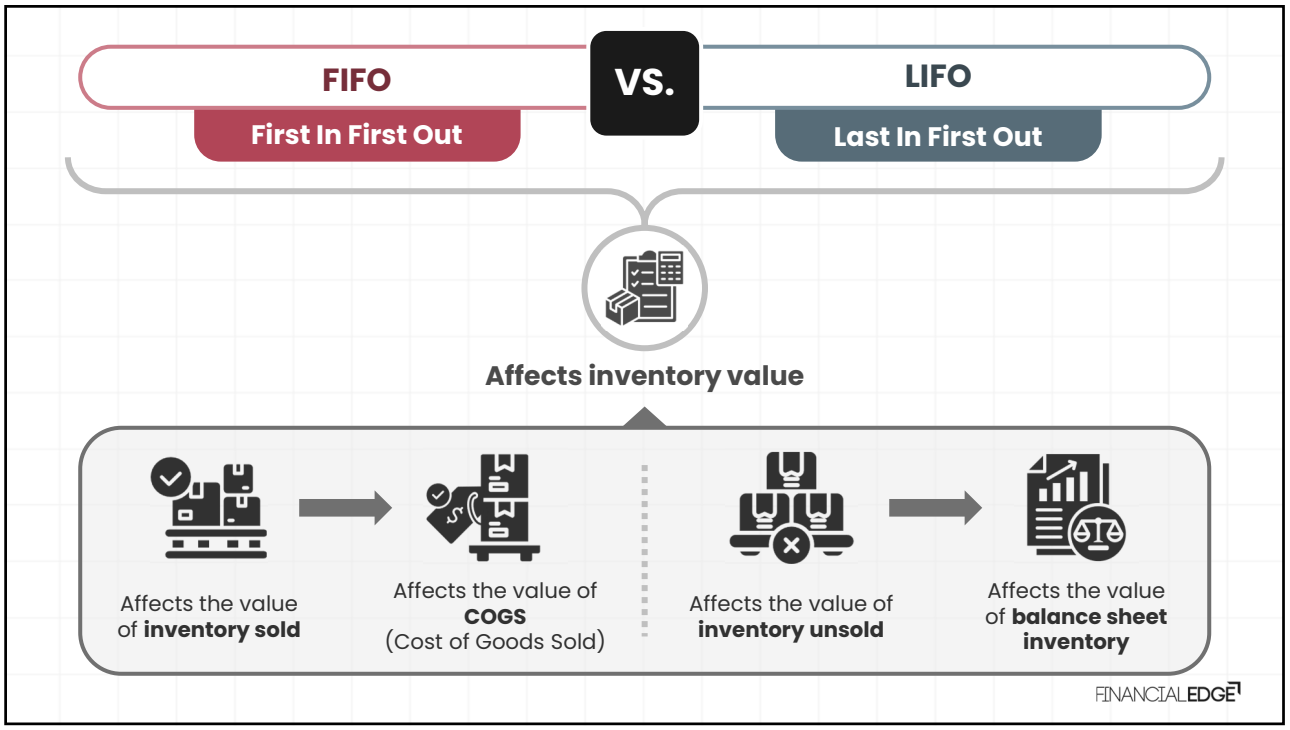
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FIFO — First In First Out **VS.** **LIFO** — Last In First Out

Purchases			
Day	**Purchases**	**Cost**	**Total cost**
1	1 unit	5.0	5.0
2	1 unit	7.0	7.0
3	1 unit	9.0	9.0
	3 units		**21.0**

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FIFO — First In First Out **VS.** LIFO — Last In First Out

FIFO – 1 unit sold		
COGS		5.0
Total Inventory	= 7.0 + 9.0	**16.0**

Purchases			
Day	**Purchases**	**Cost**	**Total cost**
1	1 unit	5.0	5.0
2	1 unit	7.0	7.0
3	1 unit	9.0	9.0
	3 units		**21.0**

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FIFO
First In First Out

VS.

LIFO
Last In First Out

FIFO – 1 unit sold		
COGS		5.0
Total Inventory	= 7.0 + 9.0	**16.0**

LIFO – 1 unit sold		
COGS		9.0
Total Inventory	= 5.0 + 7.0	**12.0**

Purchases			
Day	**Purchases**	**Cost**	**Total cost**
1	1 unit	5.0	5.0
2	1 unit	7.0	7.0
3	1 unit	9.0	9.0
	3 units		**21.0**

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FIFO
First In First Out

VS.

LIFO
Last In First Out

FIFO – 1 unit sold		
COGS		5.0
Total Inventory	= 7.0 + 9.0	**16.0**

LIFO – 1 unit sold		
COGS		9.0
Total Inventory	= 5.0 + 7.0	**12.0**

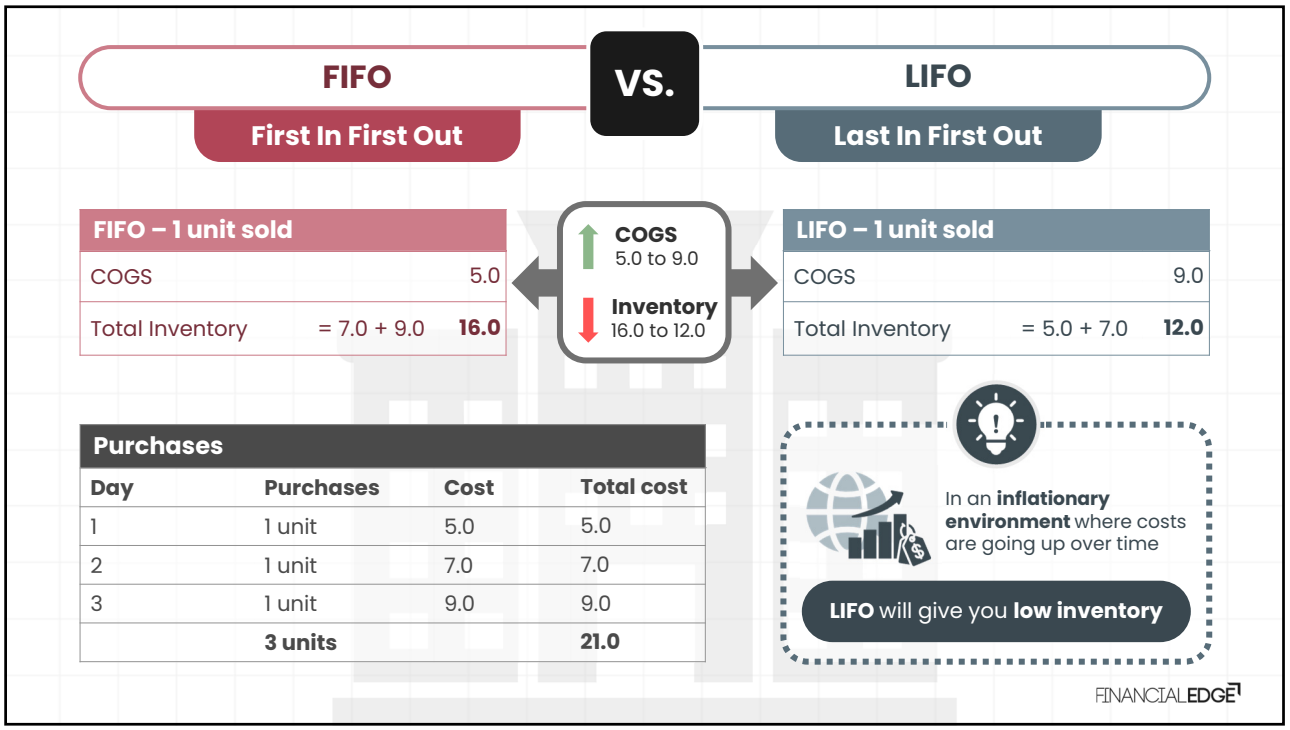
Purchases			
Day	**Purchases**	**Cost**	**Total cost**
1	1 unit	5.0	5.0
2	1 unit	7.0	7.0
3	1 unit	9.0	9.0
	3 units		**21.0**

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COGS
5.0 to 9.0

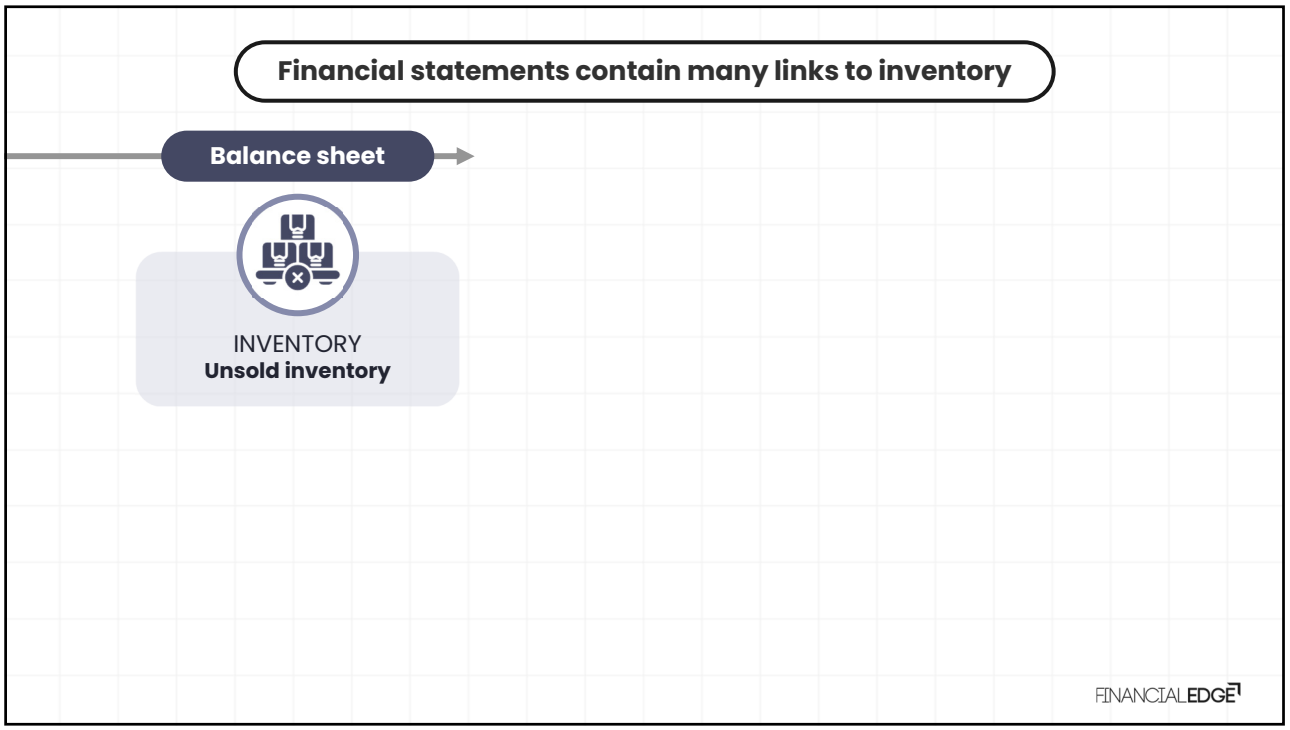
Inventory
16.0 to 12.0

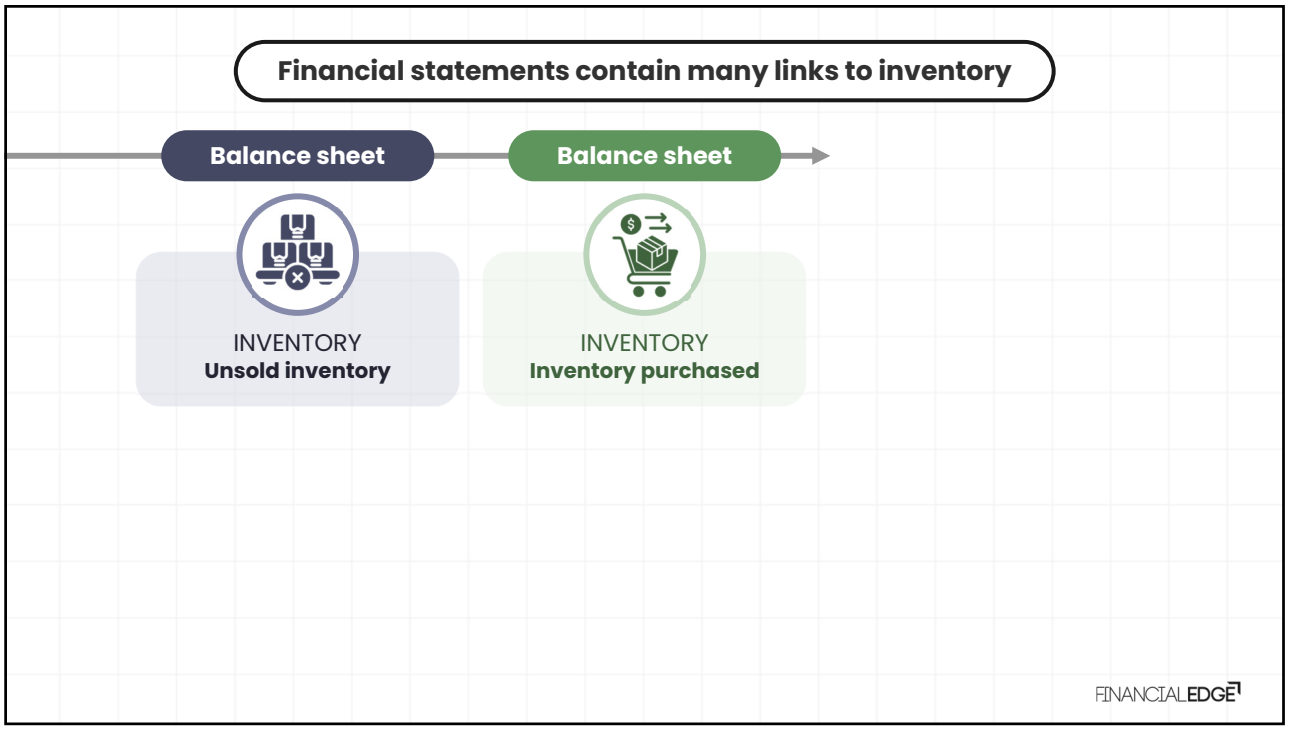
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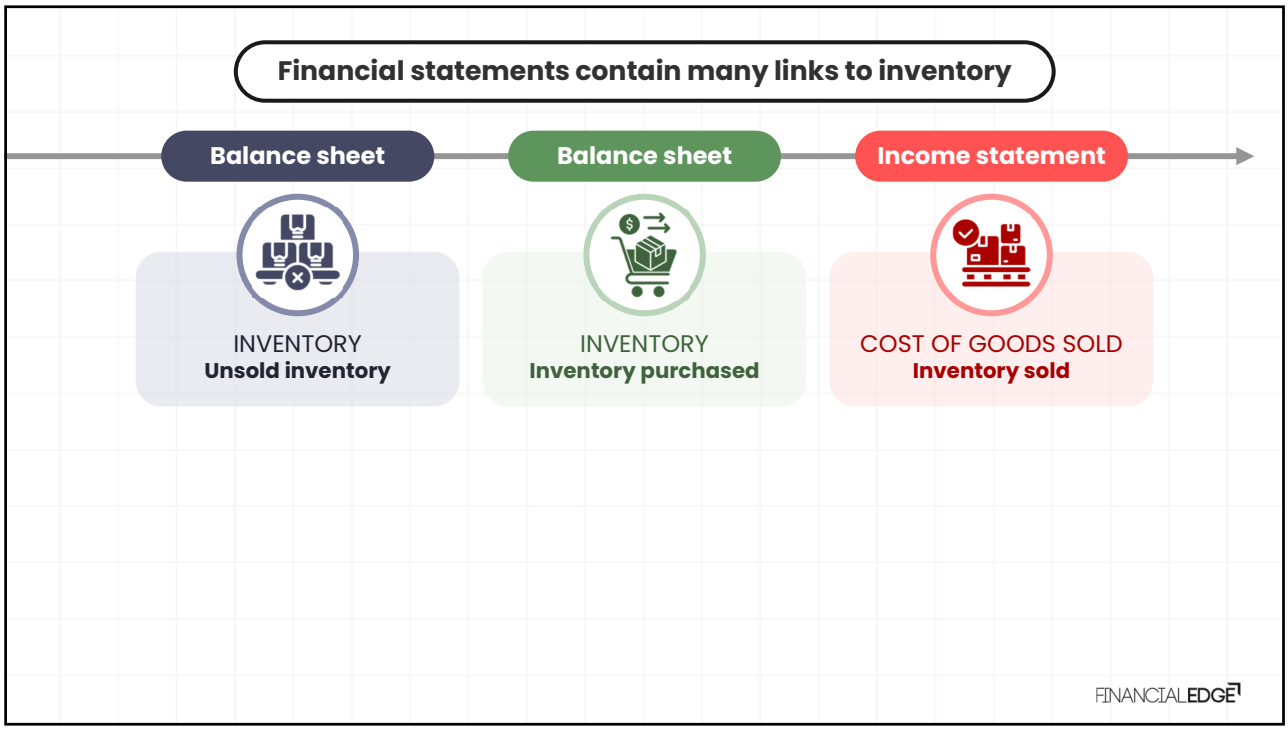
Inventory in the Financial Statements

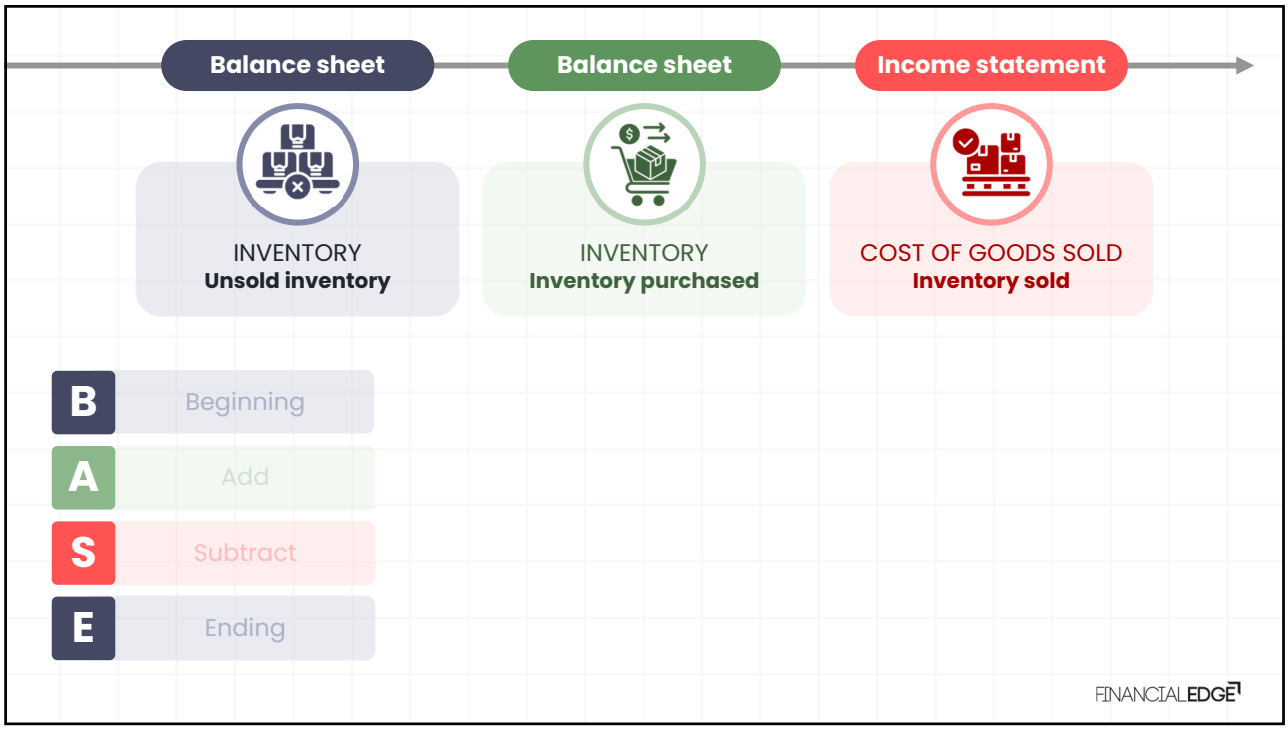
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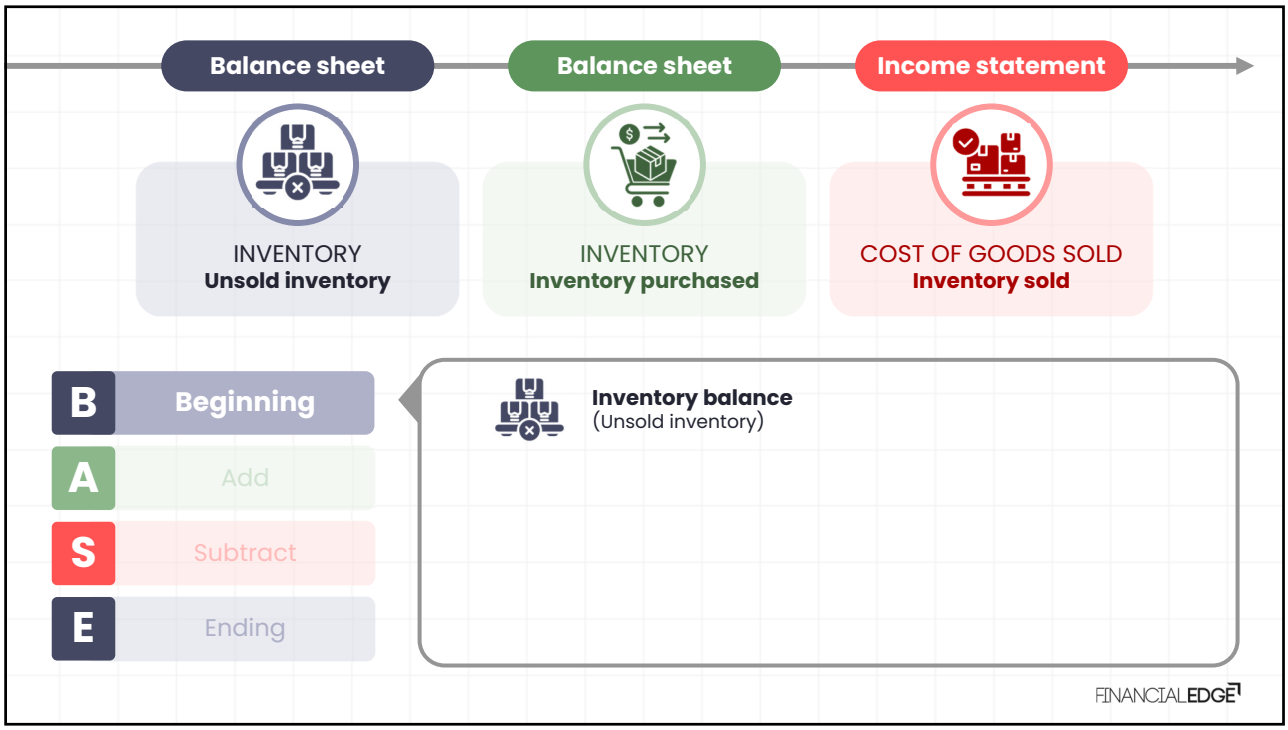


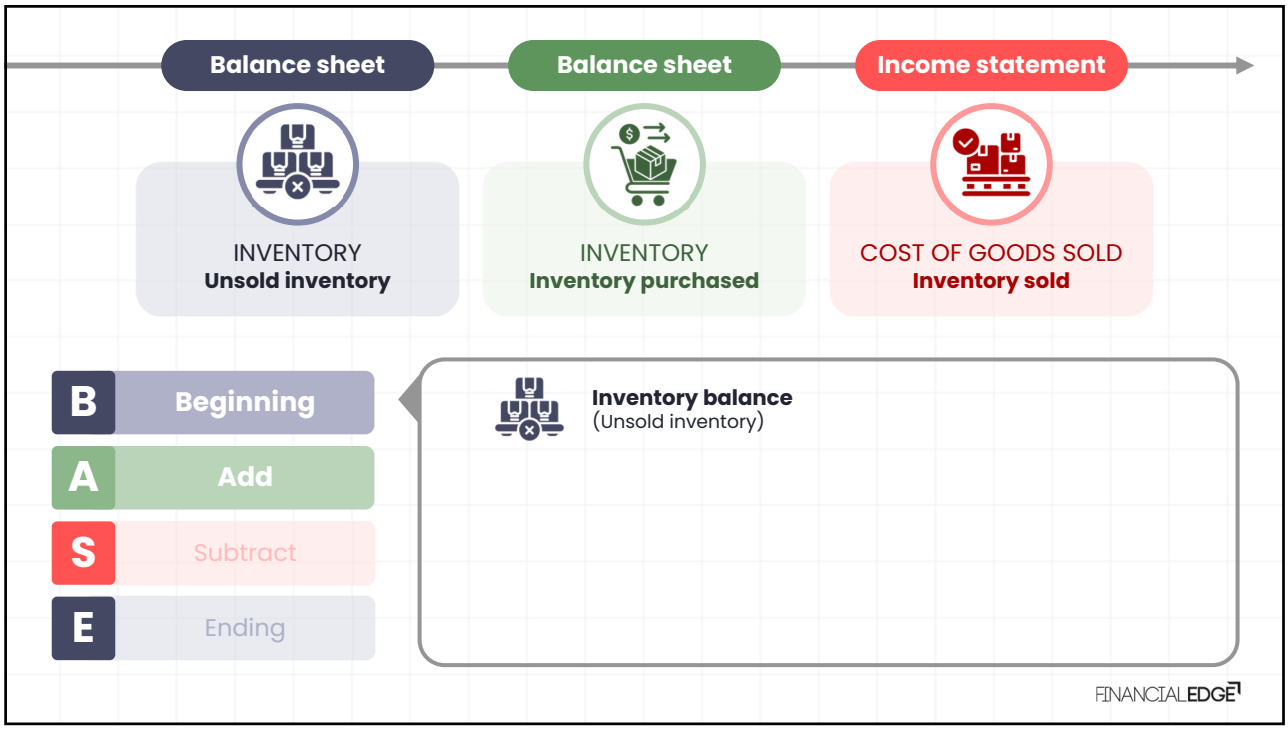
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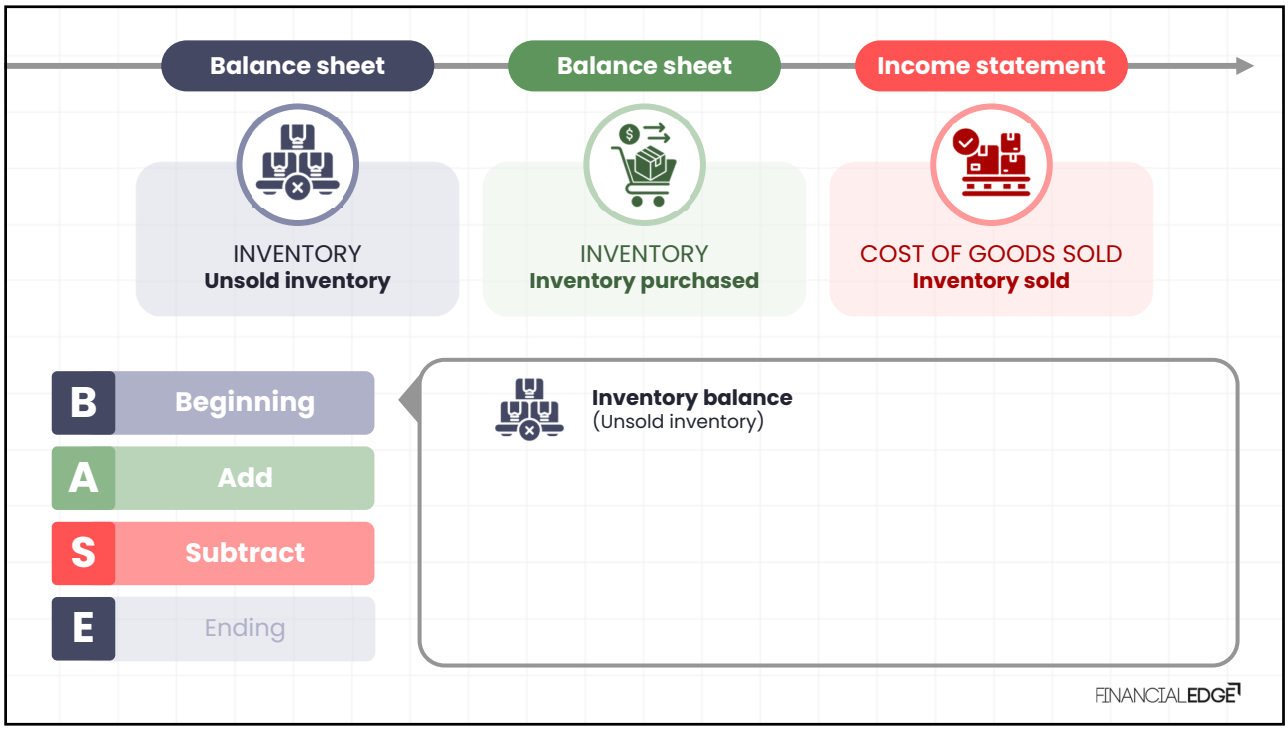


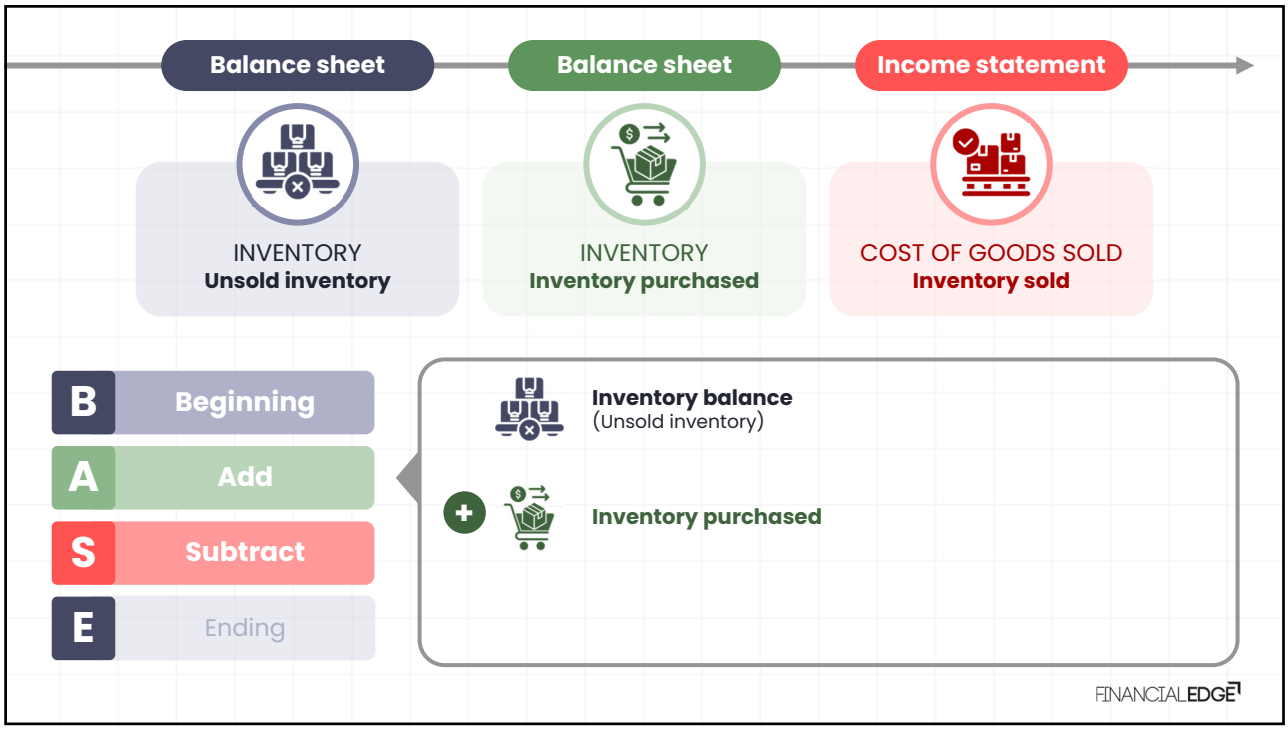
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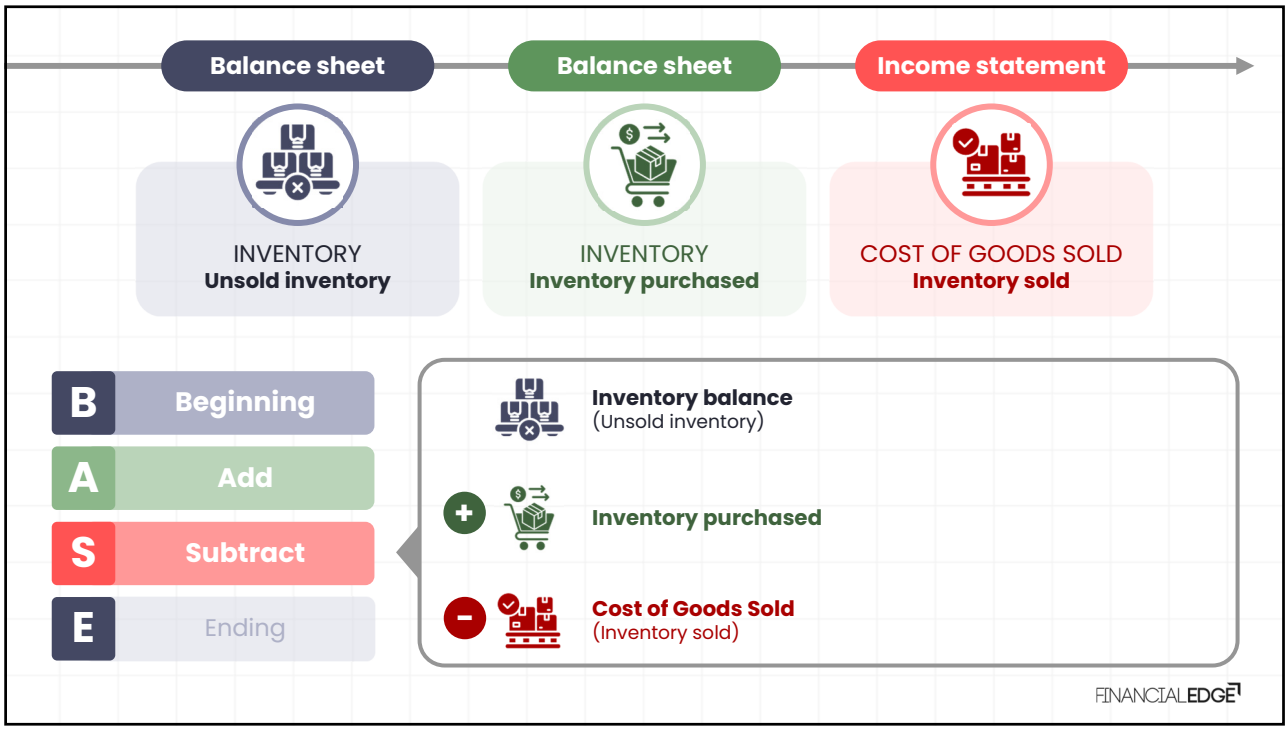


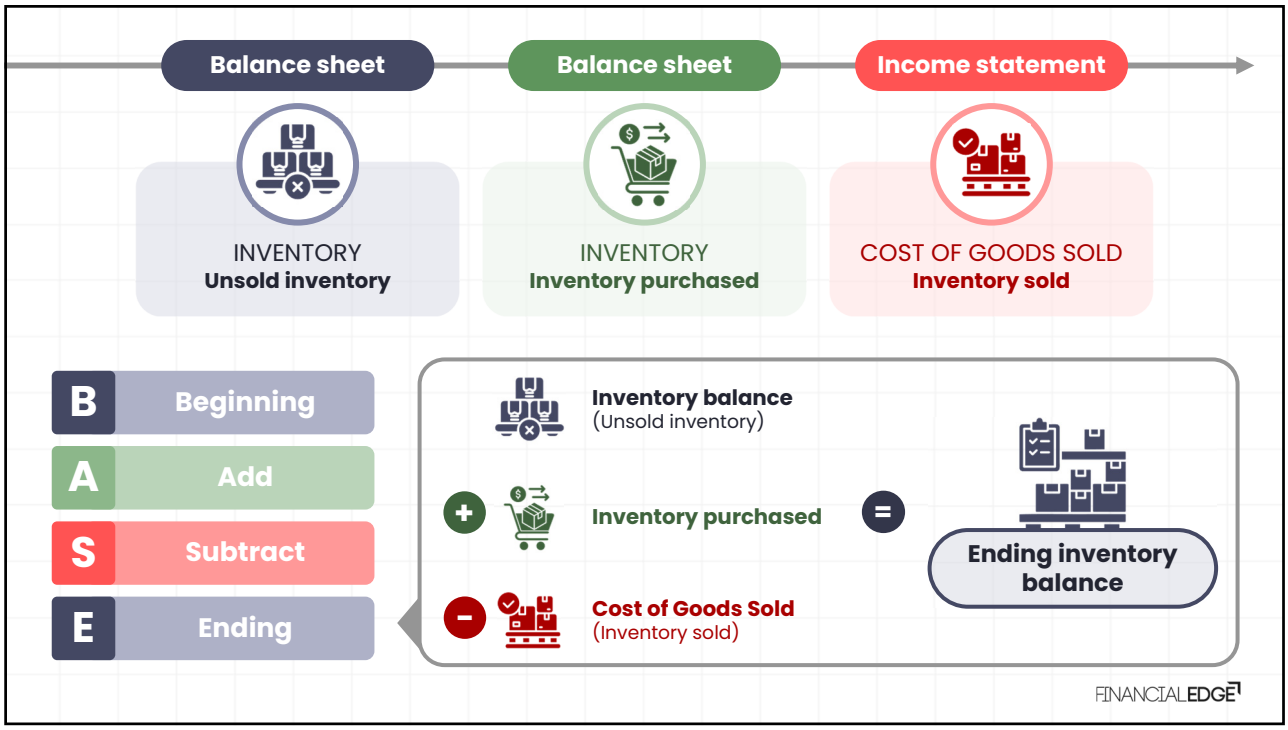
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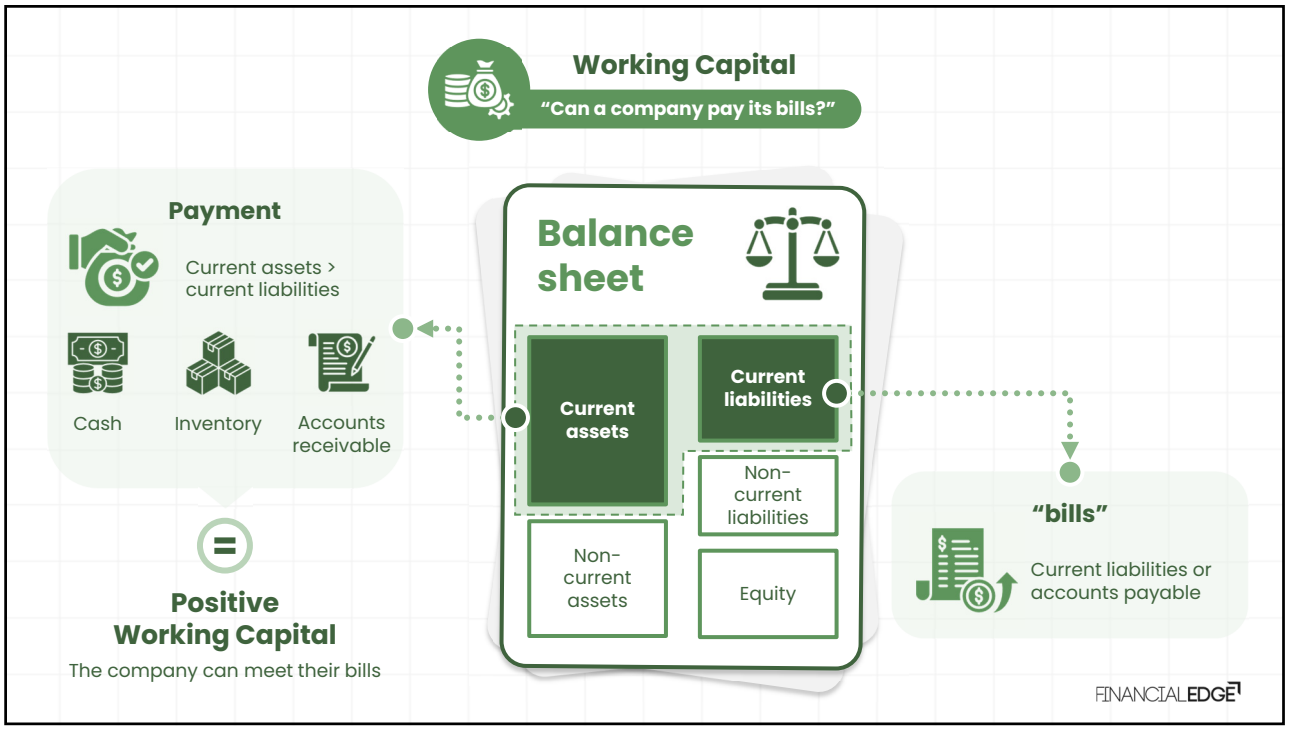




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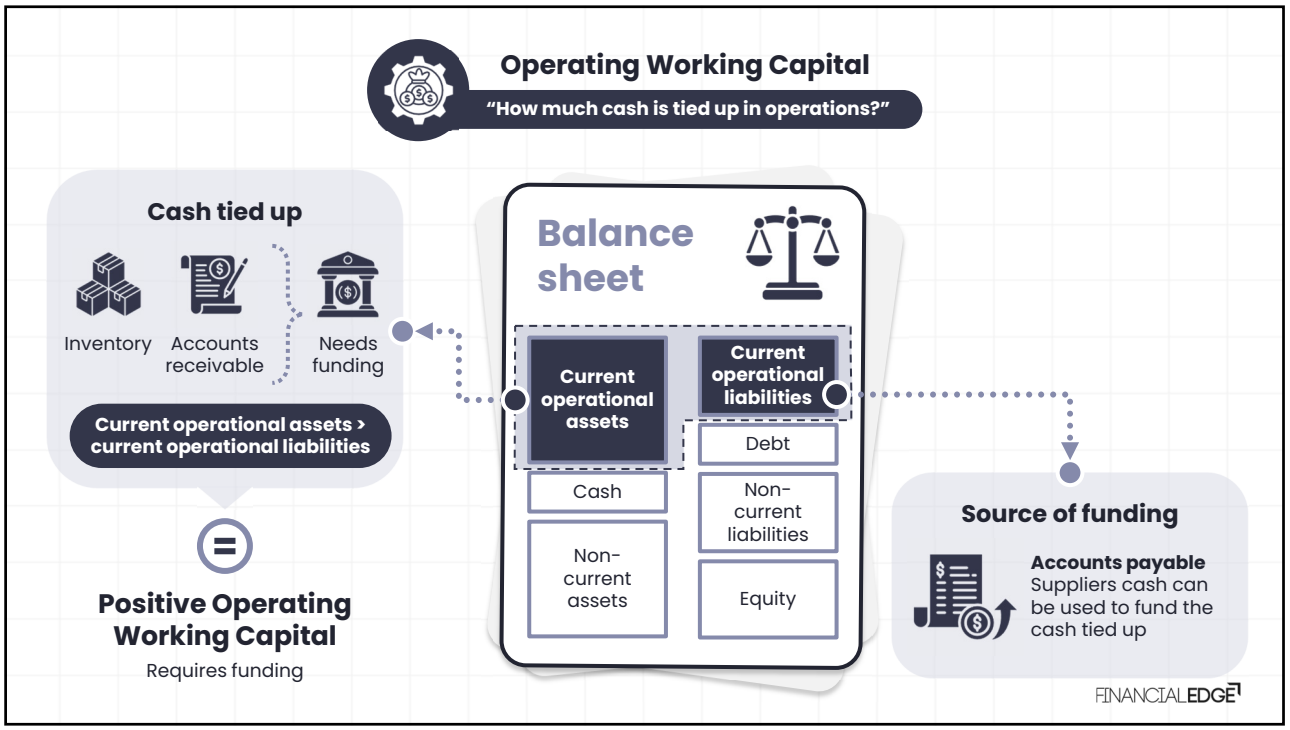
Working Capital and Operating Working Capital

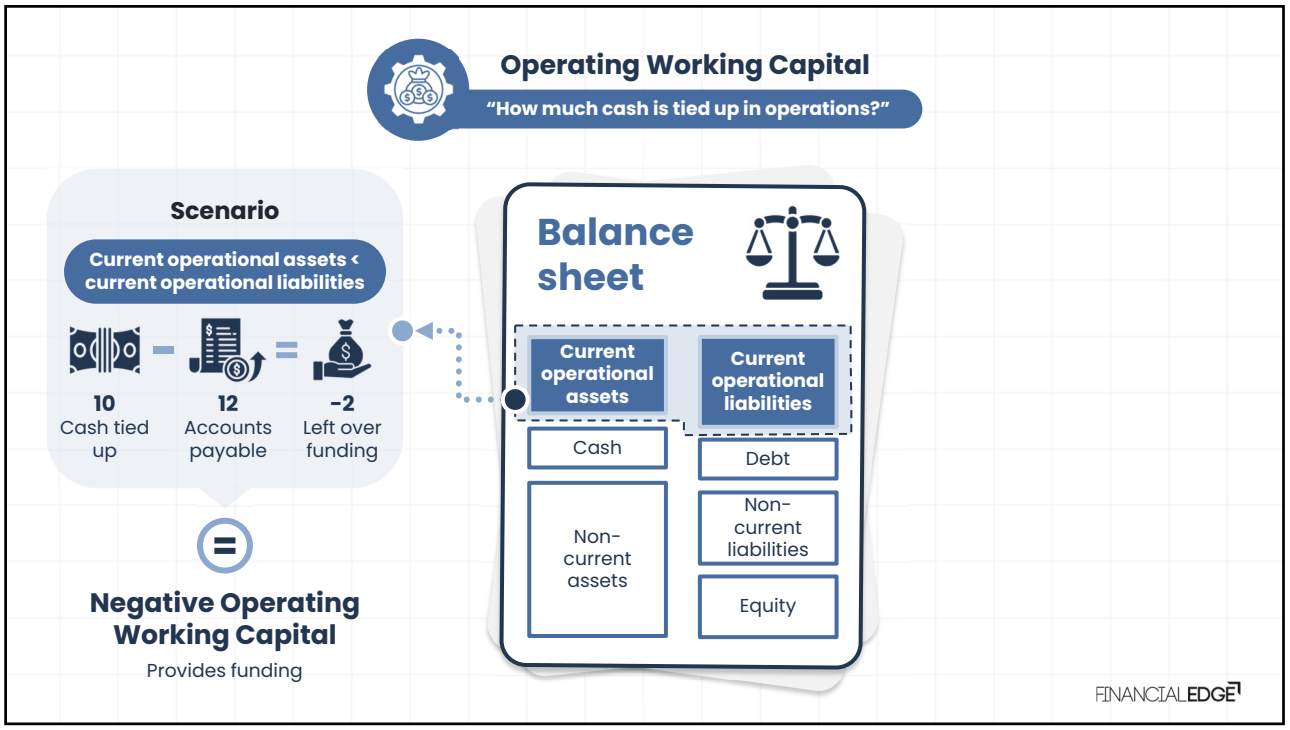
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Operating Working Capital and Funding

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Operating Working Capital

Includes **current assets** and **current liabilities** that are **operating** in nature

Operating Working Capital (OWC) = **Operating Current Assets (OCA)** − **Operating Current Liabilities (OCL)**



Amount of **cash tied up** in your **operations**



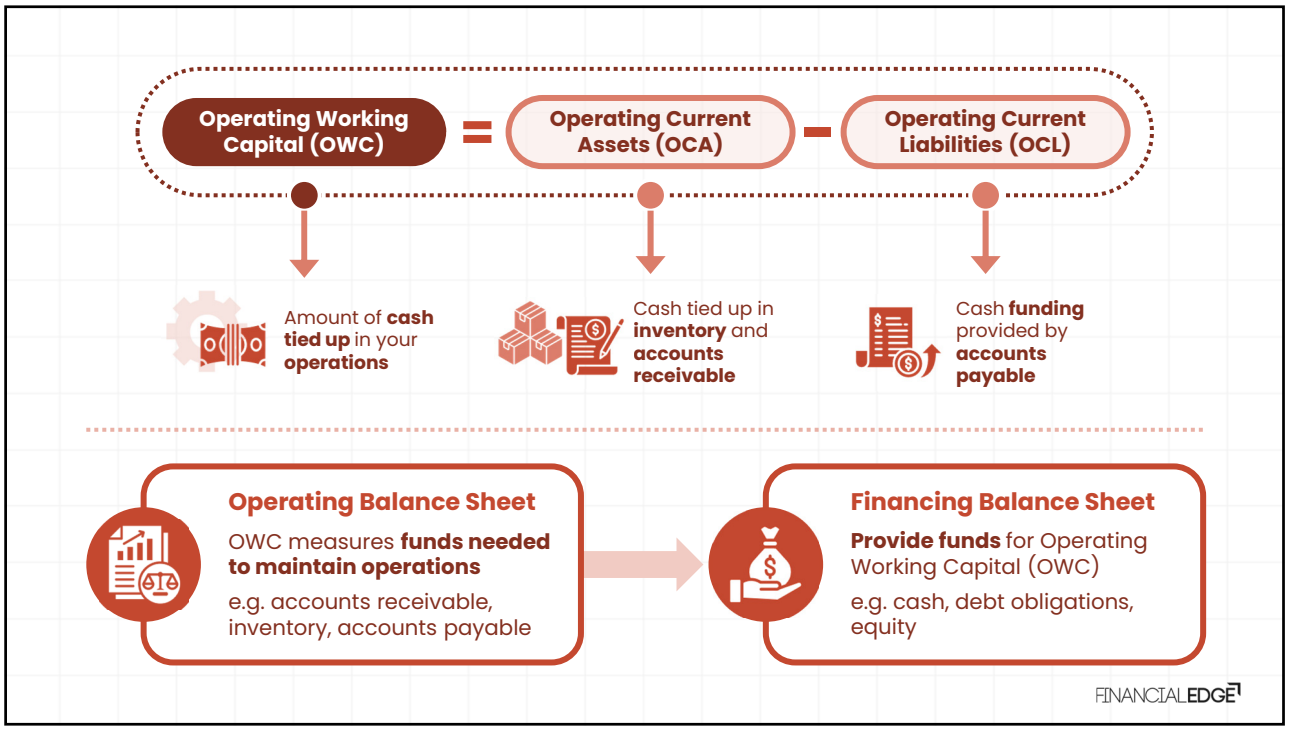
Cash tied up in **inventory** and **accounts receivable**



Cash **funding** provided by **accounts payable**

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How can Operating Working Capital (OWC) change the funding needs of a company?

	Example 1	Example 2	Example 3	Example 4
Inventory	1,000.0	1,000.0	0.0	0.0
Accounts receivable	0.0	0.0	0.0	2,500.0
Accounts payable	0.0	1,000.0	1,000.0	1,000.0
Operating working capital	+1,000.0	0.0	(1,000.0)	+1,500.0

1,000.0 – 0.0 = 1,000.0 = **Positive Operating Working Capital**

Funding **requirement of 1,000.0** to be invested

Very common scenario

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How can Operating Working Capital (OWC) change the funding needs of a company?

	Example 1	Example 2	Example 3	Example 4
Inventory	1,000.0	1,000.0	0.0	0.0
Accounts receivable	0.0	0.0	0.0	2,500.0
Accounts payable	0.0	1,000.0	1,000.0	1,000.0
Operating working capital	+1,000.0	0.0	(1,000.0)	+1,500.0

1,000.0 – 1,000.0 = 0.0 = **Zero Operating Working Capital**

Requires no funds to be invested

Desirable scenario

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How can Operating Working Capital (OWC) change the funding needs of a company?

	Example 1	Example 2	Example 3	Example 4
Inventory	1,000.0	1,000.0	0.0	0.0
Accounts receivable	0.0	0.0	0.0	2,500.0
Accounts payable	0.0	1,000.0	1,000.0	1,000.0
Operating working capital	+1,000.0	0.0	(1,000.0)	+1,500.0

0.0 – 1,000.0 = (1,000.0) = **Negative Operating Working Capital**

Provides funds to the rest of the business

Highly desirable scenario

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How can Operating Working Capital (OWC) change the funding needs of a company?

	Example 1	Example 2	Example 3	Example 4
Inventory	1,000.0	1,000.0	0.0	0.0
Accounts receivable	0.0	0.0	0.0	2,500.0
Accounts payable	0.0	1,000.0	1,000.0	1,000.0
Operating working capital	+1,000.0	0.0	(1,000.0)	+1,500.0

2,500.0 – 1,000.0 = 1,500.0 = **Positive Operating Working Capital**

Funding **requirement of 1,500.0** to be invested

Common scenario

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Operating Working Capital and Cash Flow Impact

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How can changes in Operating Working Capital (OWC) impact cash flow?

Funding requirement

Year 1 – Year 2
Cash has been released and is available

= **Positive cash flow impact**

Positive OWC	Year 1	Year 2	Year 3
Operating working capital	1,000.0	800.0	1,100.0
Cash flow impact		+200.0	(300.0)

1000 – 800 = 200

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How can changes in Operating Working Capital (OWC) impact cash flow?

Funding requirement

Year 2 – Year 3
More cash has been tied up e.g. in inventory

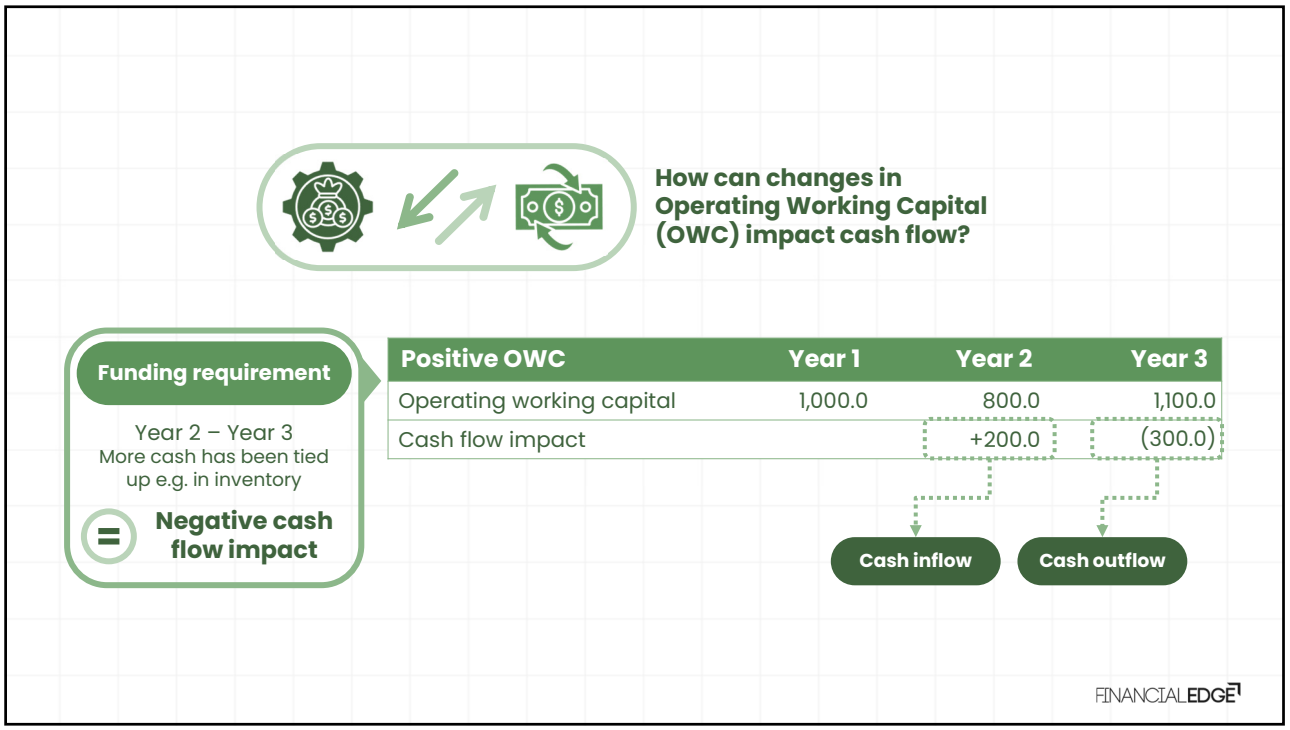
= **Negative cash flow impact**

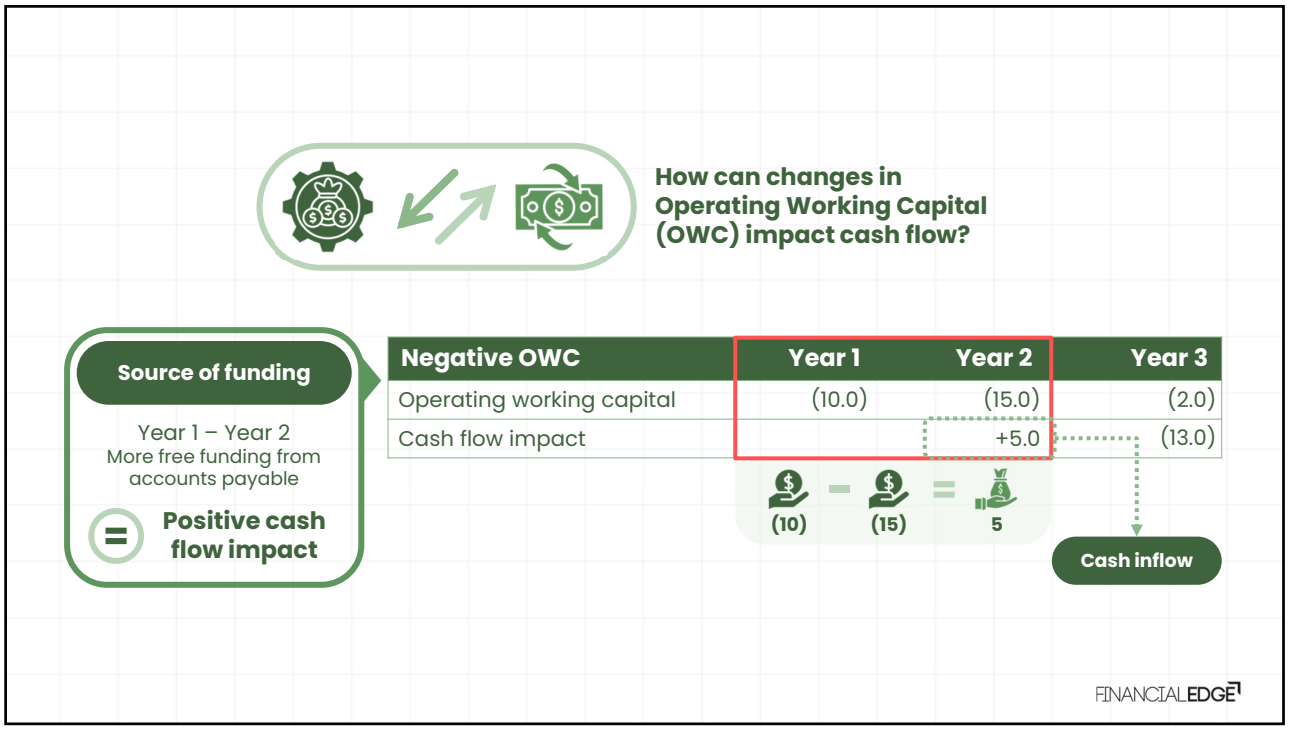
Positive OWC	Year 1	Year 2	Year 3
Operating working capital	1,000.0	800.0	1,100.0
Cash flow impact		+200.0	(300.0)

800 – 1,100 = (300)

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How can changes in Operating Working Capital (OWC) impact cash flow?

Source of funding

Year 2 – Year 3
Cash invested, less free funding is available

= **Negative cash flow impact**

Negative OWC	Year 1	Year 2	Year 3
Operating working capital	(10.0)	(15.0)	(2.0)
Cash flow impact		+5.0	(13.0)

(15) − (2) = (13)

Cash outflow

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Working Capital Days Ratios

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Working Capital Days

Assess h**ow long cash is tied up** for in the business

Receivables days

How long we give our **customers to pay our bills** on average

$$\text{Receivables days} = \frac{\text{Ending receivables}}{\text{Sales}} \times \text{Number of days of sales}$$

$$\frac{10}{120} \times 365$$

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Working Capital Days

Assess h**ow long cash is tied up** for in the business

Receivables days

How long we give our **customers to pay our bills** on average

$$\text{Receivables days} = \frac{\text{Ending receivables}}{\text{Sales}} \times \text{Number of days of sales}$$

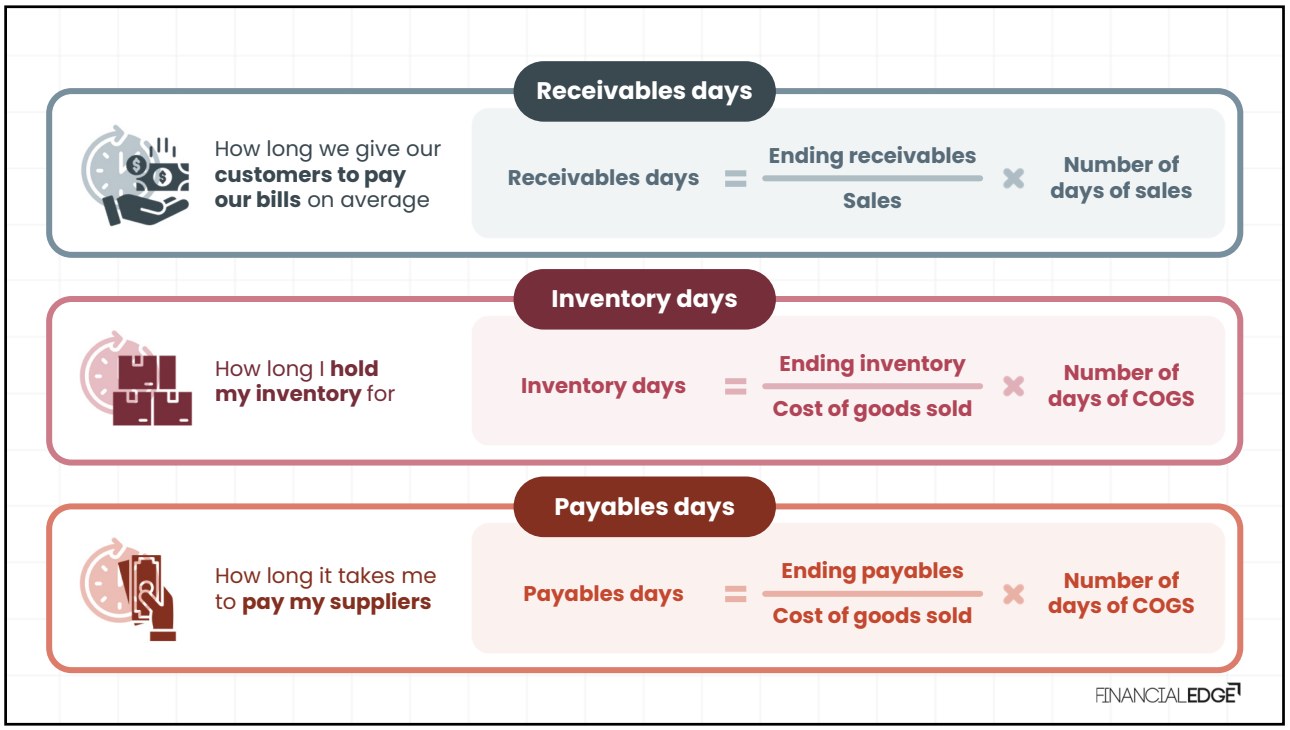
Inventory days

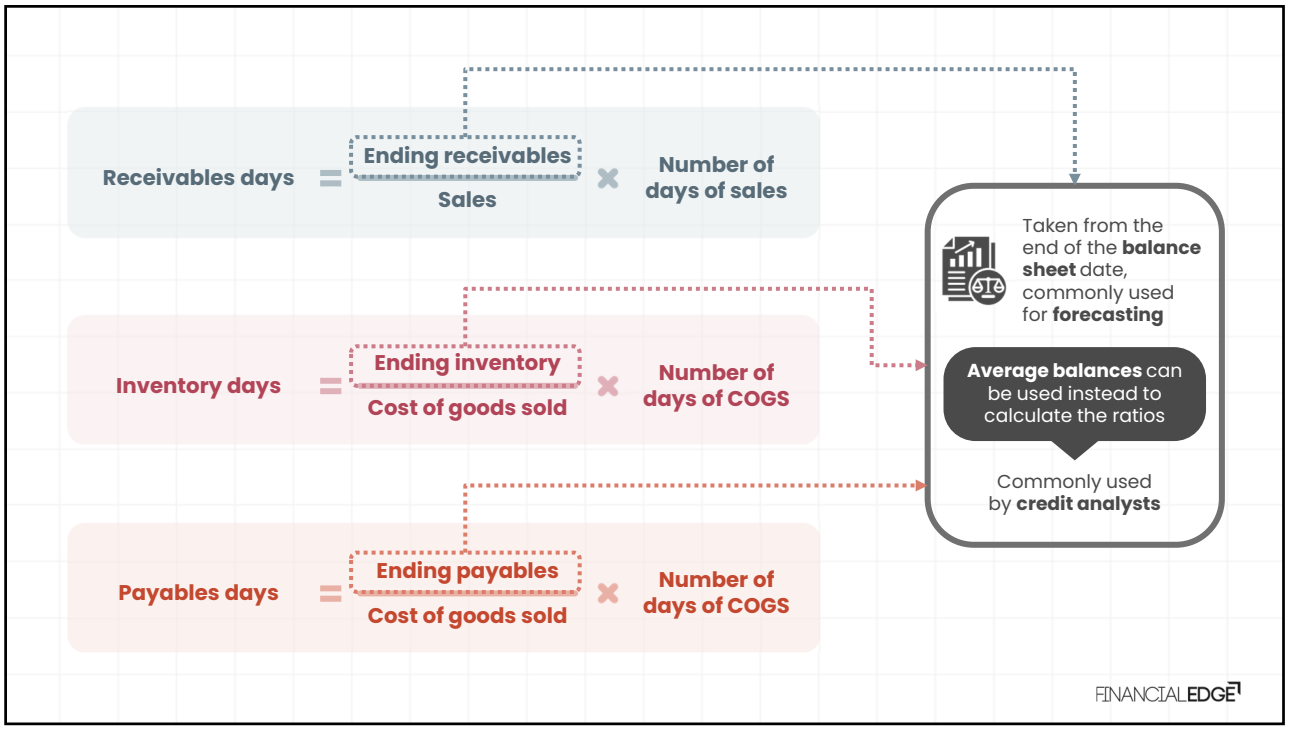
How long I **hold my inventory** for

$$\text{Inventory days} = \frac{\text{Ending inventory}}{\text{Cost of goods sold}} \times \text{Number of days of COGS}$$

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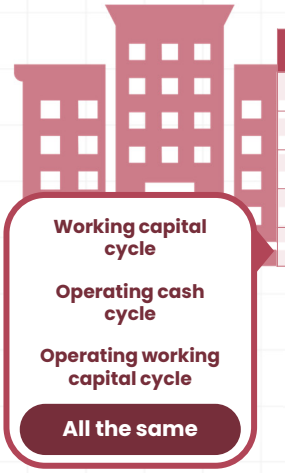




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Working Capital Days Ratios Impact Funding

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- **Working capital cycle**
- **Operating cash cycle**
- **Operating working capital cycle**
- **All the same**

Working Capital Days	Year 1	Year 2	Year 3
Receivables days	30.0	29.0	24.0
Inventory days	19.0	22.0	25.0
Payable days	34.0	32.0	26.0
Working capital cycle	15.0	19.0	23.0

Receivables days = 30 = **Cash is tied up** with customers for 30 days which **requires funding**

\+ **Inventory days = 19** = **Cash was tied up** in inventory for 19 days which **requires funding**

− **Payable days = 34** = **I had my supplier's cash** for 34 days which is a **source of funding**

= **Working capital cycle** of **15** days

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Working Capital Days	Year 1	Year 2	Year 3
Receivables days	30.0	29.0	24.0
Inventory days	19.0	22.0	25.0
Payable days	34.0	32.0	26.0
Working capital cycle	15.0	19.0	23.0

Receivables days coming down
Funding required for less of a period = **less funding** required

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Working Capital Days	Year 1	Year 2	Year 3
Receivables days	30.0	29.0	24.0
Inventory days	19.0	22.0	25.0
Payable days	34.0	32.0	26.0
Working capital cycle	15.0	19.0	23.0

Receivables days coming down
Funding required for less of a period = **less funding** required

Inventory days going up
Funds tied up in inventory for a longer period = **more funding** required

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Working Capital Days	Year 1	Year 2	Year 3
Receivables days	30.0	29.0	24.0
Inventory days	19.0	22.0	25.0
Payable days	34.0	32.0	26.0
Working capital cycle	15.0	19.0	23.0

Receivables days coming down
Funding required for less of a period = **less funding** required

Inventory days going up
Funds tied up in inventory for a longer period = **more funding** required

Payable days coming down
Period of free funding is decreasing = **more funding** required

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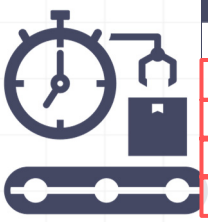
Working Capital Cycle

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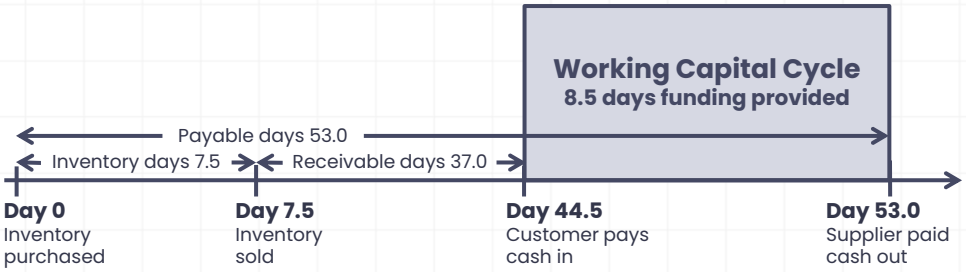
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Working Capital Cycle

Seeks to find the **length of time** that **funds are** either **required or provided**



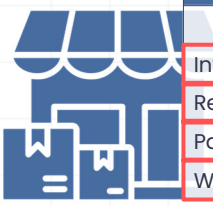
Just In Time Manufacturer	Year 1
Inventory days	7.5
Receivable days	37.0
Payable days	53.0
Working capital cycle	(8.5)



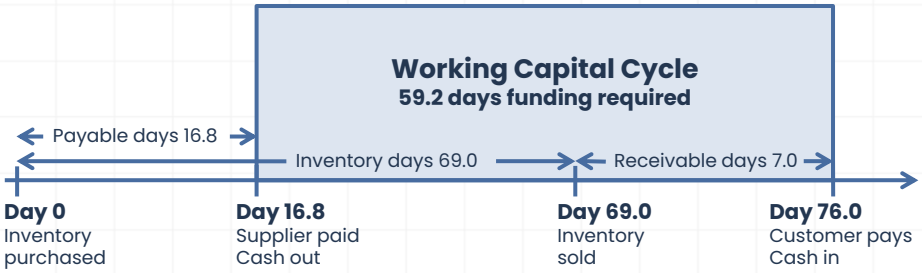
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Working Capital Cycle

Seeks to find the **length of time** that **funds are** either **required or provided**



Home Improvement Retailer	Year 1
Inventory days	69.0
Receivable days	7.0
Payable days	16.8
Working capital cycle	59.2



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Working Capital Includes Taxes

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There are many types of taxes in the financial statements

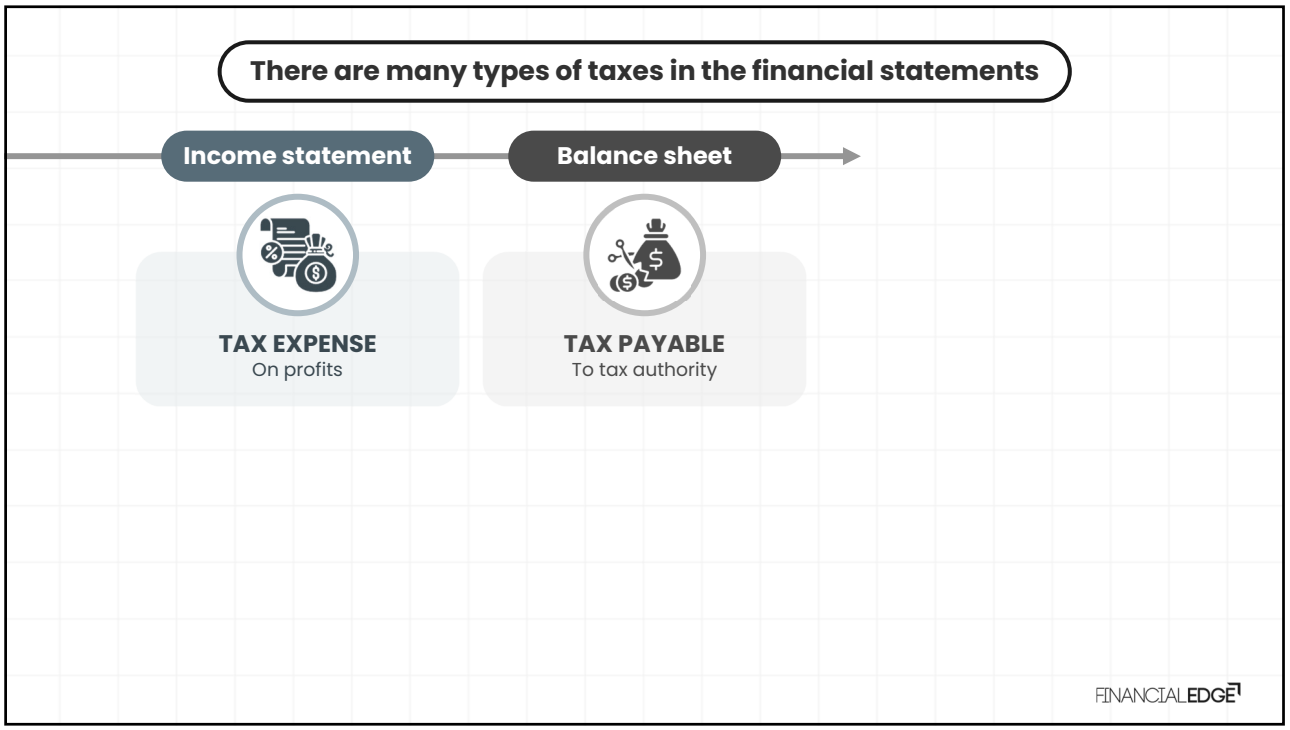
Income statement

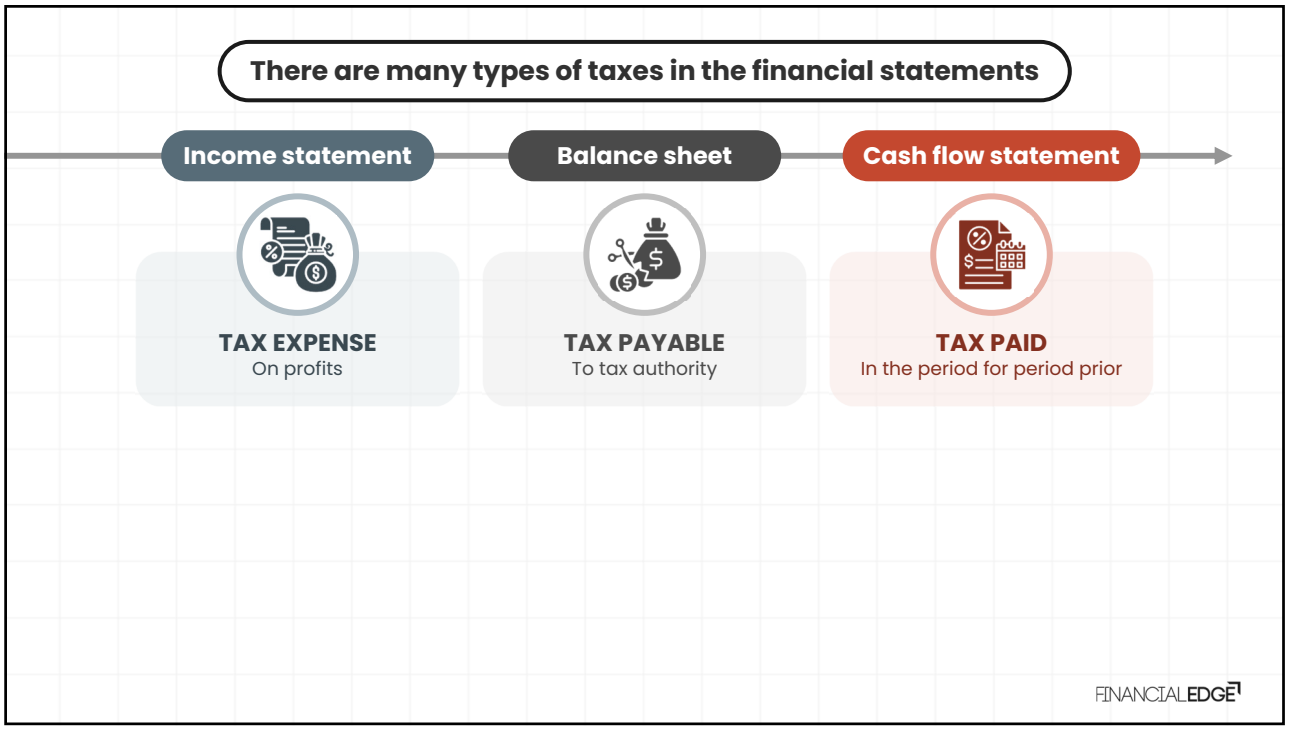


TAX EXPENSE
On profits

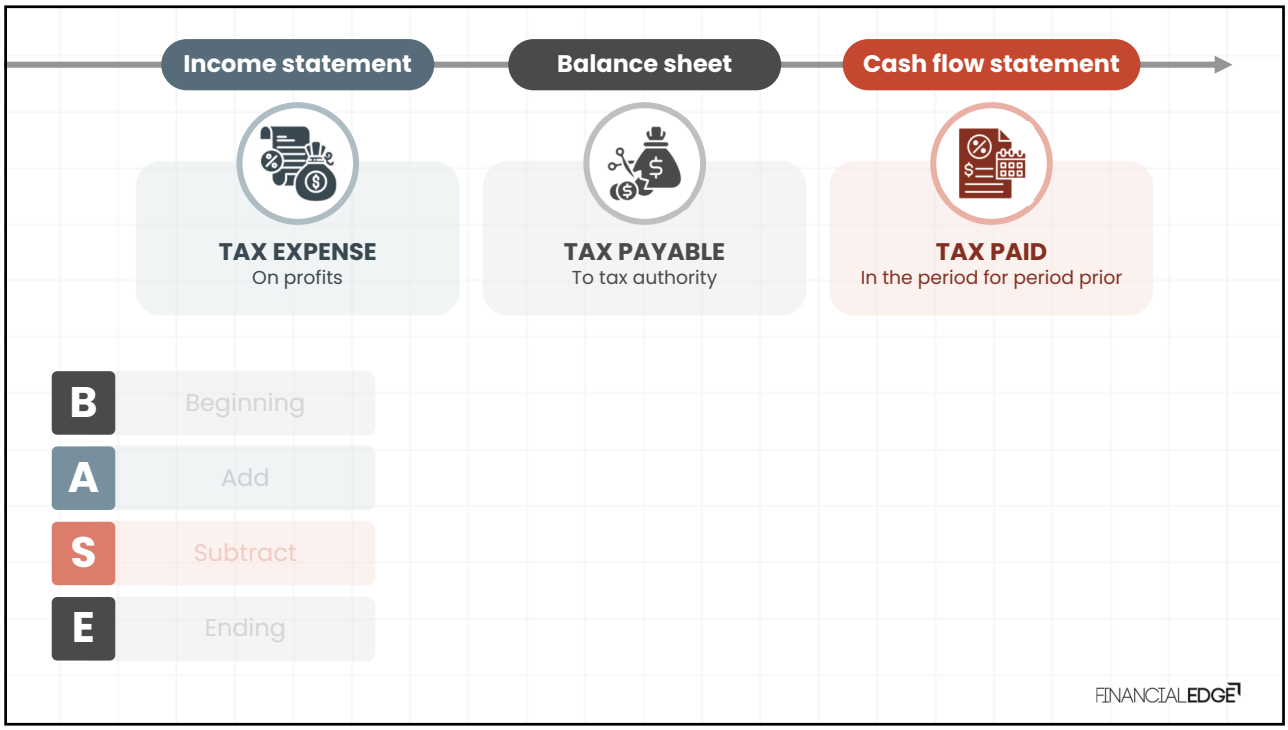
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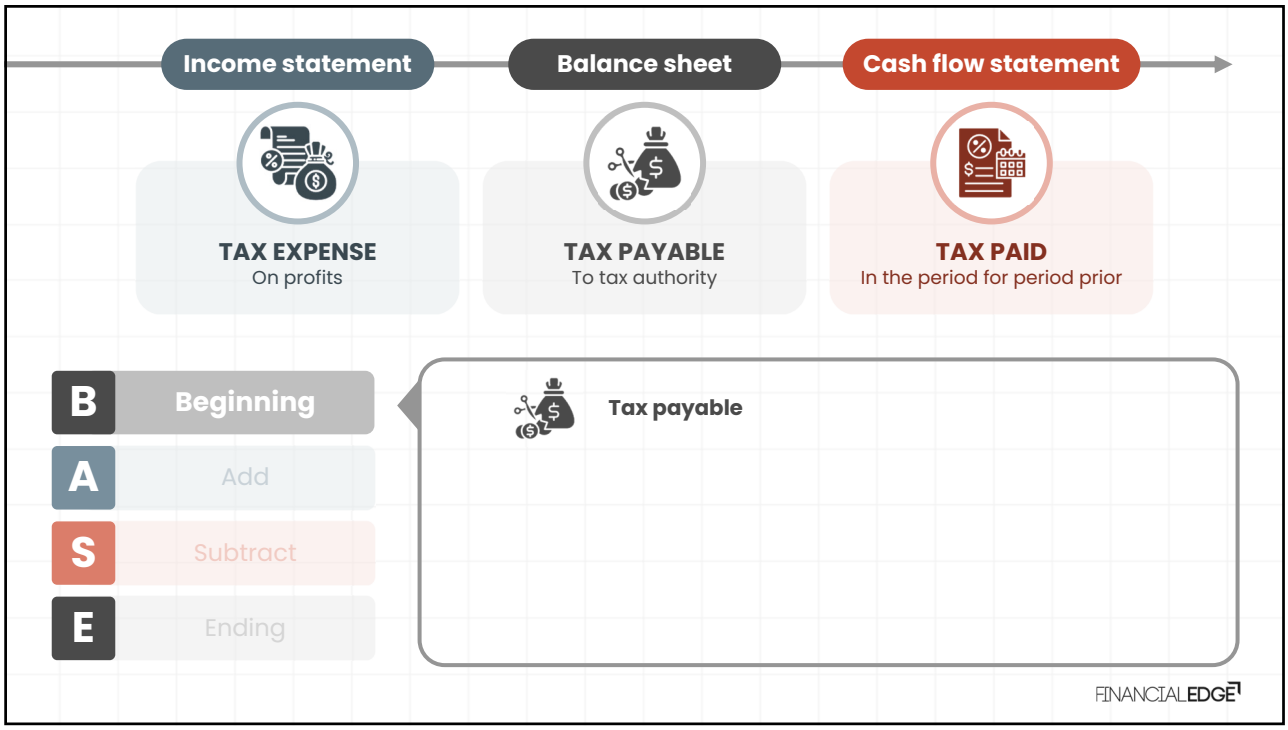
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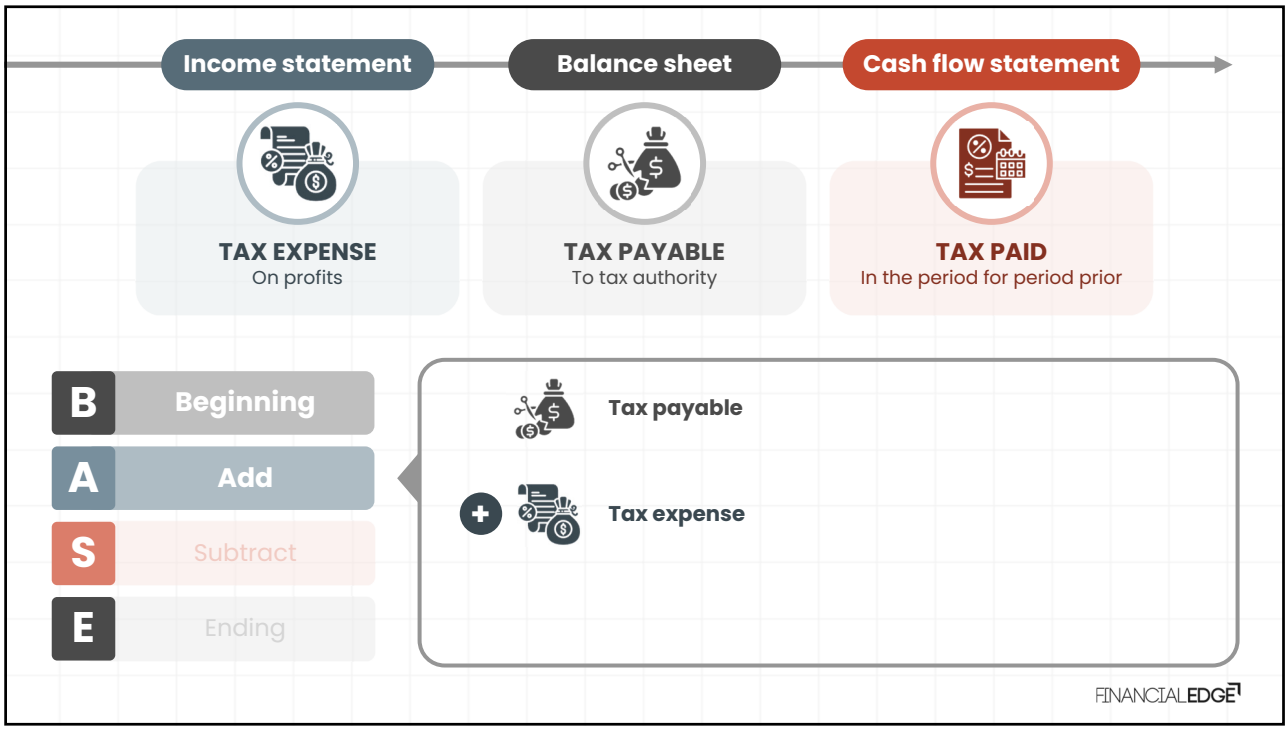


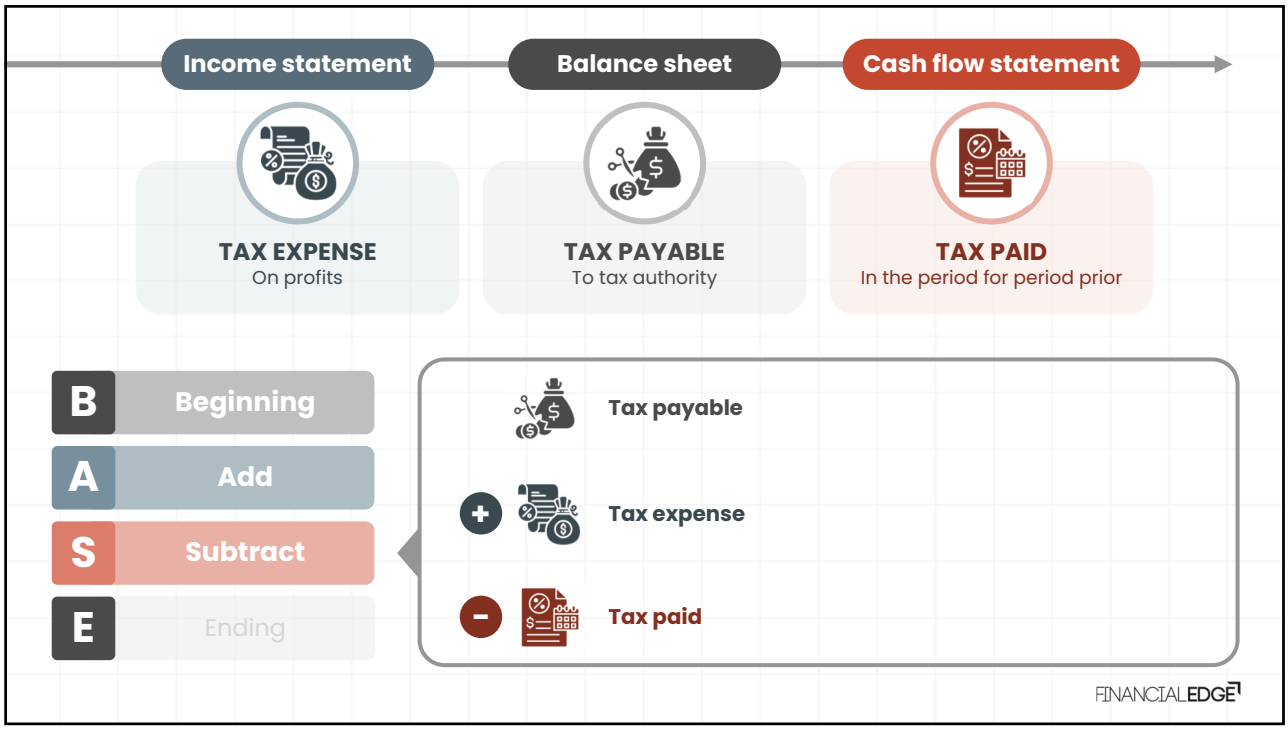
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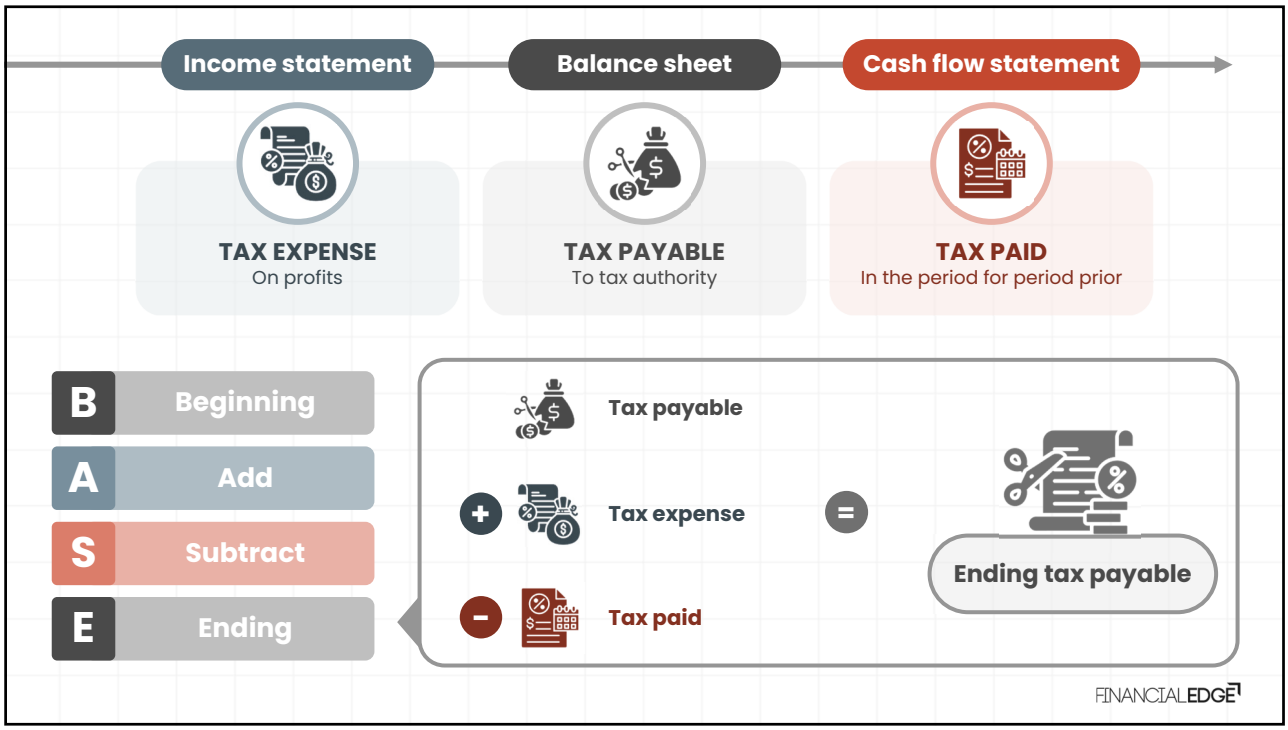


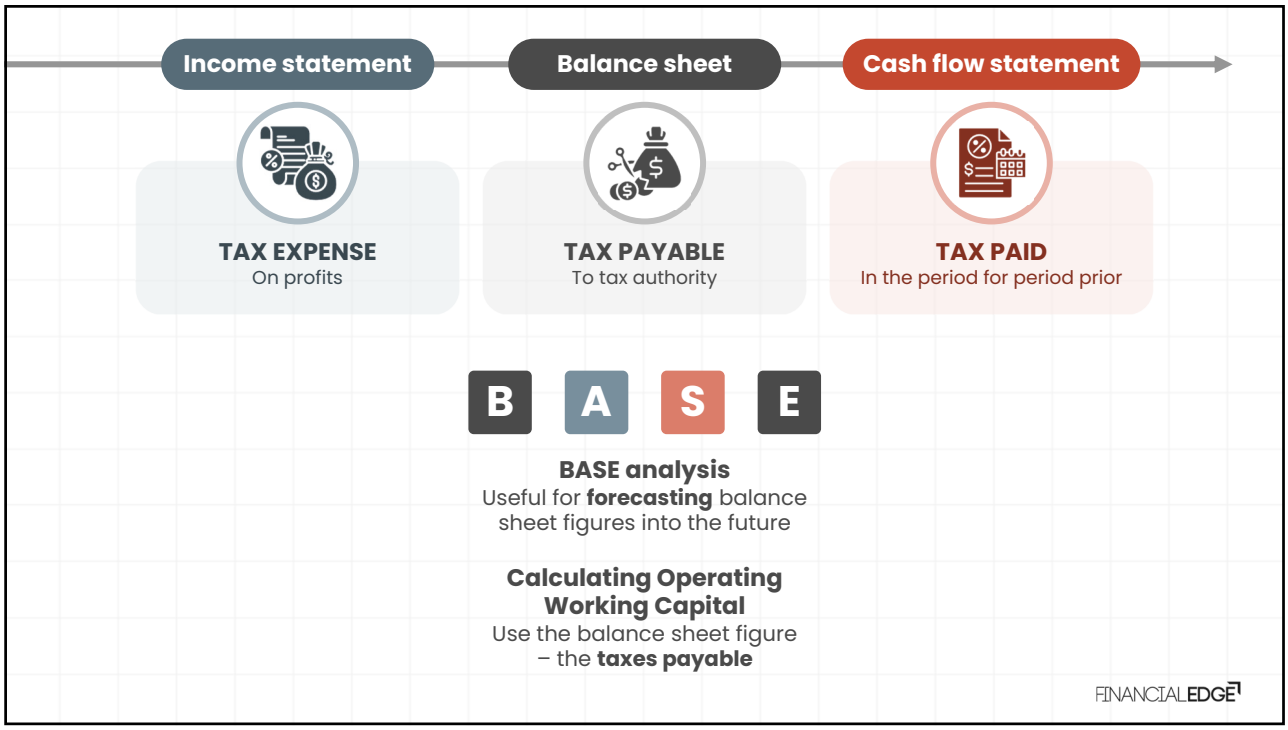
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