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**Subject: Working Capital Management**

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**Q:1A some companies finance their working capital in short term financing what would be the impact of this decision on their profitability and risk..**

**Ans:** Some companies use short term financing

Arranging of available external funds to meet the need of a firm for a year or less time.

Cash flow from operations may not be sufficient to keep up with the growth related financing needs.

Firms may refer to borrow now for their inventory or other short term acid needs rather than wait until they have save enough.

Forms may prefer short term finance instead of long term source of Financing

The decision of Short term financing for a company is good because in short term financing have periods as a week (or a day), or as long as one year in which we have fast approval, we can pay less and interest, it can help you improve your credit rating and it can offer flexibility and reduce stress..

But short term financing is somewhat riskier than long term but it also tend to be less expensive and offer greater flexibility to the Borrower. Both increase the risk and the lower rate are due to potential for the future interest rate fluctuations monthly payment amount are highly because the loan must be paid that over the short period of time….

**B**. A company’s used long term financing to finance all fixed and current assets. Long-term debit usually have a fixed interest rate in translate consistent monthly payments in high predictability. This predictability make it easy to budget the operational income that you will need to make the payment. In addition the business can fully deduct the interest paid on debit. Current asset of typical manufacturing firm accounts for over half of its total asset. For small company long term debit is the principal source of external financing.

Long term funds may not be beneficial for the company as it affect the ALM position significantly. The credit rating of a company also play a major role in raising funds via a long term or short term mean hence improving the credit rating of a company might help the organisation to raise the long-term funds as cheap rate.

**C.** Fixed assets and the non seasonal portion of current assets are finance with long term debit and equity (long term profitability of assets to cover the long term financing cost of the form).

Seasonal needs are finance with short term loans (under normal operation sufficient cash flow is expected to cover the short term financing cost).

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**Q:2A discuss the important variable in selection of marketable securities for investment?**

**Ans:** The purchase of marketable securities the form of OU manager must first understand how each potential security purchase relate to certain ki variable among the most important of these variable are **safety, marketability,** **yield** and **maturity**.

**Safety:** the most basic test that marketable security must pass certain safety of principal. This refer to the likelihood of getting back the same number of dollars originally invested. Safety is the judge relative to US Treasury security which are considered certain if held to maturity.

**Marketability:** (or liquidity) the ability to sell a significant volume of security in short period of time in secondary market without significant price concession.

**Yield:** Variability in the market price of a security caused by change in interest rate.Yield or return on security is related to the interest and or appreciation of principal provided by the security. some security not able e treasury bill do not pay interest instead they are sold at a discount and redeem at face value.

**Maturity:** the life of security amount of time before the principal amount of security become due. some marketable security have a specific live treasury bill for example have an original life of for 4,13 or 26..

**Q2B: what is mean by net float? How company can play with its float through controlling its disbursement.**

**Ans: Float:** The dollar difference between the balance show in a forms (or individual’s) check book balance and the balance on the banks books…….

**Control disbursement** enable Corporation to review and consider pending disbursement data in their company bank account each day A company/ Corporation tend to prefer control disbursement because of the advantage it provide in terms of interest and there are two ways which is very beneficial…

First of all to maximize the potential for earn interest operation will typically stash their assets in to High interest earning accounts until they are needed it later time for the disbursement of payment. This technique help companies to earn highest amount of interest in their account due to the acid kept in them.

The second technique of playing with float for earning interest from control disbursement involve benefiting from the float time of Finance loan payment transaction. float time is the term referring to the period of time that exist between there when a payment is first made and when the amount is cleared

**Note:** controlled disbursement is the type of Cash Management Service that is only available to companies

It allow a Bank’s corporate silent to see their expenditure for disbursement on a daily basis which is control period of time.

Control disbursement is used to regulate the flow of checks through the banking system on daily basis usually by mandating once-daily and distribution of checks.

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**Q:3A what is outsourcing? Why a company outsource some or all of its receivables?**

**Ans: Outsourcing :** Subcontracting ascertain business operation play in outside form, whether abroad or at home, instead of doing it in home.

**Because it can help you save on time, money and resources.**

**There are 5 benefits of outsourcing accounts receivable**

1. **Reduce time and cost**

Within external resources service provider handling your account receivable you need not invest on an in house account receivable department. there will be no need to buy expensive software or equipment. you can also save yourself the trouble of hiring new stuff. while you use your time and revenues improve yourself and build strong customer relationship you can be sure that your account receivable are in good hands.

1. **Improve your account receivable process**

Outsourcing accounts receivables can enable you to collect payment quickly and within deadlines. your Outsourcing service provider will be using advanced electronic building and customer friendly payment options so that your receivable are collected and proceeds quickly. the server provider will handle your electronic transfers and mobile payments without you having to be present. with multiple payment options you will witness your customers paying their dues before the due date. this in turn will improve your cash flow.

1. **Focus on your core business**

By handing over the reins of your account receive an external service provider you can focus on the things that really matter for your business to grow. The Outsourcing service provider will track down late prayers on your behalf thereby giving you more time to build and grow your company to its fullest potential.

1. **Increase in efficiency**

The outsourced team well come with experience, skill and degrees in accounting this is something that your in-house team may Lack. the outsourced team will be able to achieve higher efficiency by performing your account receivables with accuracy and within the deadline.

1. **Faster collections**

The longer you take to collect in overdue account the lesser money your business will be able to recover, as your can become overdue by a month 90 days or a year will be losing more and more. An Outsourcing company will be able to automate your account receivable so that you can close your book and save on cost.

Q:3B. **Discuss the three motives for holding cash.**

**Ans:** the three categories to describe the motive for cooperation to be hold cash.

1. **Transaction motive.** To meet payment such as purchases, wages, Texas and dividend erasing in the ordinary course of business.
2. **Speculative motive.** To take advantage of temporary opportunities such as a sudden decline in the price of raw material.
3. **Precautionary motive.** To maintain safety cushion or buffer to meet unexpected cash needs. The more predictable the inflows and outflows of cash for a firm the less the cash that needs to be held for precautionary needs. Ready to borrowing power to meet emergency cash drains also reduce the need for this type of cash balance.

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