



WORKING CAPITAL FINANCE

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BANK FINANCE

- Banks are the main institutional sources of working capital
- The amount approved by the bank for the firm's working capital is called credit limit
- It may be of Bank Loans, Cash Credit, Overdraft



Contd..

- Secured Term Loans: The entire loan amount is paid to the borrower either in cash or by credit to his account
- Cash Credit: A Cash Credit is an arrangement by which a bank allows his customer to borrow money upto certain limit
- Overdrafts: Overdraft means an agreement with a bank by which a current account holder is allowed to withdraw more than the balance to his credit upto a certain limit



COMMERCIAL PAPER

- Commercial Paper is an important money market instruments to raise short term funds
- It is of unsecured promissory note by firms to raise short term funds
- Duration: 15 days and not more than 1 year
- If the maturity date falls on holiday, it should be paid on next working day
- Renewal of CP is not permissible



Contd..

- Issued at discount
- No collateral security, Since a firm with a high credit rating can issue



CERTIFICATE OF DEPOSIT



- Certificate of Deposit are negotiable term deposit issued by commercial banks and financial institutions
- Maturity: 3-year CD, 2-year CD, and 1-year CD
- The interest is paid in the normal way
- The market value of CD's differ based on rate of Interest
- It is intended that the CD be held until maturity, at which time the money may be withdrawn together with the accrued interest.



Contd..

- Cannot withdrawn before maturity
- Traditional CD's
- Liquid CD's



INDIGENOUS BANKS

- Private money-lenders used to be the source of finance
- They charge high rate of interest
- Now-a-days with the development of commercial banks they lost their monopoly
- They have close contact with customers





INSTALLMENT CREDIT

- This is another method by which the assets are purchased and the possession of goods is taken immediately but the amount is paid in installments
- Interest is charged on the unpaid price
- Seller charges high rate of interest



Advantages

- Immediate Possession of Assets
- Convenient Payment for Assets and Equipment
- Saving of one time investment

Disadvantages

- Committed Expenditure
- Obligation to Pay Interest



ADVANCES

- Some business houses get advances from their customers and agents against orders
- Generally firm having long production cycle, prefer to take advances from their customers
- Interest free, No Tangible Security, No repayment obligation
- If goods are not delivered the order would be cancelled



ACCRUED EXPENSES

- Accrued Expenses are the expenses which have been incurred but not due and hence not paid
- These simply represents a liability that a firm has to pay for the services already received by them
- Example: Wages and Salaries, Interest and Taxes



DEFERRED INCOMES

- The income received in advance before supplying goods and services
- These funds increase the liquidity of a firm
- Rent received in advance is an example of deferred income



SUMMARIZE