



WORKING CAPITAL FINANCE

SWARNAM S





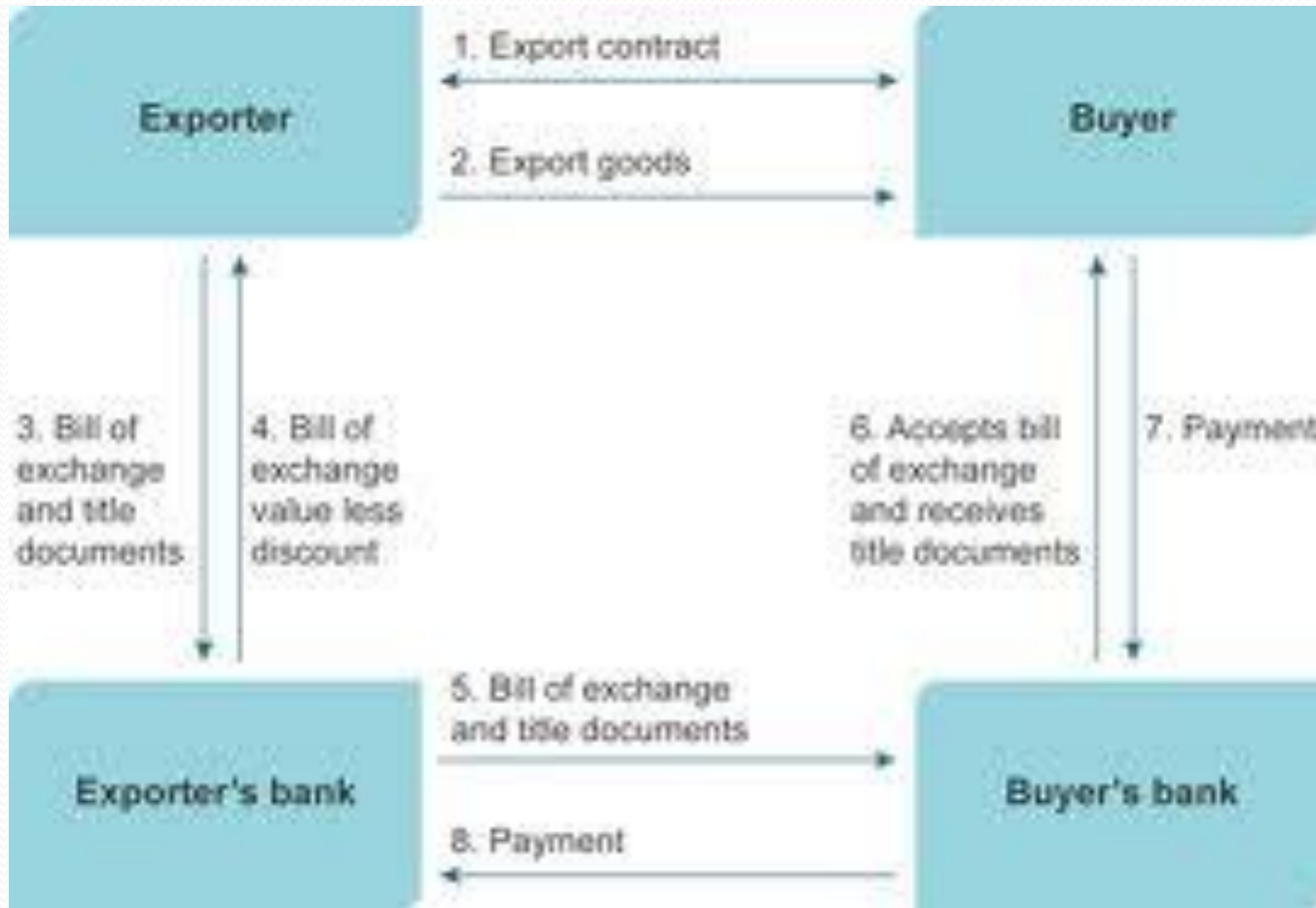
DEFERRED INCOMES

- 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



BILLS DISCOUNTING

- Purchasing or Discounting of Bill is the most important form in which a bank lends without any collateral security
- The bank purchases the bills payable in demand and credits the customer's account with amount of bill less discount
- Advantage: Immediate Availability, No Extra Security





FACTORING

- Factoring as “a business involving a continuing legal relationship between a financial institution (the factor) and the business concern (the client) selling goods to the trade customer (the customer) whereby the factor purchases the client’s accounts receivable



FORFAITING

- Forfaiting is a form of financing of receivables pertaining to international trade
- It denotes purchase of trade bills by a bank without recourse to the seller
- All risk and collection problems are fully responsibility of the forfaiter





LETTER OF CREDIT

- A letter of credit is an arrangement whereby a bank helps its customer to obtain credit from its supplier
- Letter of credit is form of guarantee.
- Letter of credit deals only with documents. Therefore, if the documents are in order the seller gets payment immediately
- Banks charge commission on LCs



ACCOUNTS RECEIVABLE FINANCING

- Some business lack the credit quality to borrow
- It must pledge collateral to obtain loan
- When the accounts receivable increases, the allowable loan also increases
- When the firm does not repay the loan, the lender will collect the receivables directly from the customer
- The bank will collect all invoices



INVENTORY FINANCING

- Inventory Financing with inventory as a collateral
- Inventory is a riskier collateral than accounts receivable
- Some may become obsolete and loses value quickly, like partially manufactured goods, have no resale value
- Firms with Standardized goods with predictable price will be more successful in inventory financing



LOANS FROM CO-OPERATIVE BANKS

- Co-operative banks are good source to procure short-term finance
- Loans from co-operative banks are easily available to farmers and small businessmen
- Lower rate of interest
- Membership is primary condition for securing loan
- They grant loans for personal as well as business purposes.



SUMMARIZE