

Chapter 16

Managing Current Assets

LEARNING OBJECTIVES

After reading this chapter, students should be able to:

- Define basic working capital terminology.
- Distinguish among relaxed, restricted, and moderate current asset investment policies, and explain the effect of each on risk and expected return.
- Explain how EVA methodology provides a useful way of thinking about working capital.
- Calculate the inventory conversion period, the receivables collection period, and the payables deferral period to determine the cash conversion cycle.
- Briefly explain the basic idea of zero working capital.
- Briefly explain how a negative cash conversion cycle works.
- List the reasons for holding cash.
- Construct a cash budget, and explain its purpose.
- Briefly explain useful tools and procedures for effectively managing cash inflows and outflows.
- Explain why firms are likely to hold marketable securities.
- State the goal of inventory management and identify the three categories of inventory costs.
- Identify and briefly explain the use of several inventory control systems.
- Monitor a firm's receivables position by calculating its DSO and reviewing aging schedules.
- List and explain the four elements of a firm's credit policy, and identify other factors influencing credit policy.