

Index

- Account analysis (bank invoice), 55–56, 73–74
 - specific services, 73–74
- Accounting organizations and rules, 233
- Accounts payable management, 132–145. *See also* Procurement (purchasing) cards
 - active vs. passive, 136
 - elements of, 133–134
 - float costs of mismanaged, 136–138
 - importance of, 136
 - metrics of, 135
 - organizing for, 134
 - outsourcing, 140–145. *See also*
 - Comprehensive payables;
 - Freight and logistics services
 - policies, 133–134
 - ratios, 134
 - interpretation of, 134
 - using internal processes, 139–140
- Account reconciliation
 - (of disbursements), 35–37
 - cost, 36
 - full and partial reconciliation, 36
 - positive pay, 36–37
- Accounts receivable management, 89–110
 - aging of receivable. *See* Aging schedule.
 - debt collection agencies, use of, 109
 - organizations offering, 109
 - float, calculation of value, 93–94
 - organizing for, 92, 94
 - policies, 90–91
 - preferential or punitive treatment of
 - customers, 91
 - ratios, 94–96
 - interpretation of, 95–96
- Accrual accounting, 45
- Aging schedule, 53
 - construction of, 96
 - interpretation of, 96–98
- Asset-based financing
 - concept, 52, 54
 - cost, 108, 129
 - factoring, 52, 107–108
 - organizations offering, 108
 - inventory financing, 129–131

- Asset-based financing (*Continued*)
 industries using, 130
 issues in using, 130–131
 organizations offering, 129
- Availability (in check clearing), 32
- Banker's acceptance (investment product), 57
- Banking. *See also* Account analysis
 concentration, 38, 64–69
 company-initiated, 66
 deposit reporting services, 67
 funds mobilization, 66–69
 industries using, 66
 selection of, 68–69
 standing instructions, 66
 control of banking records, 78
 credit facilities, provisions of, 71
 definition and use in text, 3–4
 information systems. *See* information technology
 interstate banking prohibitions, 62
 legislation and regulation. *See also*
 Federal Reserve Board regulations; Legislation significant to working capital
 Basel II accords, 64
 Glass-Steagall Act of 1933, 62
 Gramm-Leach-Bliley Act of 1999, 62
 McFadden Act of 1927, 30
 limitations on business activities, 62
 noncredit services, 63
 separation of investment and commercial banking, 62
 services,
 finance as corporate gatekeeper, 65
 frauds, 39, 41–42
- Bank relationship management, 63–64, 77–79
 elements, 63
 relationship reviews, 78–79
 review cycle, 79
- Bank technology. *See* Information technology
- Benchmark interest rates
 Federal funds (Fed funds), 49
 LIBOR, 49
- Best Buy, 15–18
 as category killer, 16
- Capital asset pricing model (CAPM), 237
- Case, working capital. *See* Working capital
- Cash, 25. *See also* Working capital
 failures in managing, 26–27
 forms, 26
- Cash accounting, 45
- Cash budgets, 45–48
- Cash concentration. *See* Banking

Index

265

- Cash conversion cycle, 14–15. *See also*
 Dell Computer
- Cash-flow timeline, 27–28, 217–219
 cost of a transaction in, 217–219
 payables portion of, 132–133
 receivables portion of, 92–94
- Category killer, 16
- Change, overcoming resistance to.
 See Working capital
- Checking accounts
 control of access, 31
 excessive accounts, 31
 multipurpose accounts, 31
 problems in using, 30–31
 template of costs (compared to com-
 prehensive payables), 143–144
- Commercial paper, 58
- Comprehensive payables, 141–146. *See*
 also Accounts payable
 management; Checking
 accounts
 benefits and costs, 143–145
 data transmitted to bank, 141–142
 disbursements, check, 142–143
 emergency checks, 142
 postage discount, 143
 remittance detail, 142
 disbursements, electronic (case), 146
- Concentration banking. *See* Banking
- Controlled disbursement, 34–37. *See*
 also Account reconciliation
- cash letter, 35
 cost, 35
 float improvement, 36
 and fraud prevention, 36–37
 funding options, 35
 notification for, 35
 positive pay, 36–37
 procedures, 35
- Corporate responsibility. *See*
 International working capital
- Cost of capital, 4, 236–237
- Country risk assessment (CRA),
 167–168
 regional risk differences, 168
 types of risk, 167
- Credit crisis (2008–2010), xi–xii
 response of business during,
 209
- Credit reporting, 99–102
 cost, 102
 fixing a credit score, 102
 general procedure used, 100–101
 providers of service, 100
- Dell Computer, 14–15
 cash conversion cycle, 14
- Direct deposit (of payroll), 146–147
 cost, 147
 fraud prevention, 147
 outsourcing, 146
 promotion of, 148

- Disbursement payments. *See*
 Controlled disbursement
- Distribution method, 44–45. *See also*
 Forecasting, short-term
- Dun & Bradstreet, 11–12
- Earnings credit rate (ECR), 55–56. *See also* Account analysis (bank invoice)
- Economic order quantity (EOQ),
 122–124
 calculation of, 123–124
- Efficiency and working capital, 204–207
 focus on cash in managing working capital, 206
 need for aggressive management, 205
 teamwork required in managing, 206–207
- Electronic payments, 37–39
 Automated Clearing House (ACH) transactions, 38–39
 advantages and disadvantages, 38–39
 cost, 39
 disbursement for payables, 146
 Fedwires (Federal Reserve wire transfers), 37–38
 advantages and disadvantages, 38
 cost, 38
 terminal-based electronic payments, 39
- Enterprise resource planning (ERP).
 See Information technology
- Enterprise risk management (ERM),
 202–204. *See also* Risk
 concept, 202
 process, 203–204
 Value at Risk (VaR), 202–203
- Factoring. *See* Asset-based financing.
- Federal Reserve Board regulations
 Regulation Q, 55
 Regulation Y, 186
- Finance. *See* Banking; Working capital
- Financial disclosure. *See* International working capital
- Financial statements
 balance sheet, 233–236
 assets and liabilities, 235–236
 general concepts, 233–235
 net worth, 236
 fiscal year, 234
 income statement, 4, 7–8
- Float, 4, 27–28. *See also* Accounts payable management; Accounts receivable management; Lockboxing
- Forecasting, short-term,
 44–45
 distribution method, 44–45
- Foreign exchange (FX), 160–166,
 170–171

- cross-border clearing and settlement, 170–171
- electronic payments, progress toward, 166–167
 - Single Euro Payments Area (SEPA), 167
- factors influencing rates, 165–166
 - summary of economic factors, 165–166
- risks (in foreign exchange), 163
- structures to manage, 169–170
 - re invoicing centers, 169–170
 - status of European centers, 170
 - tax-advantaged centers, 169
- transaction mechanisms, 162–166
 - continuous link settlement, 164
 - differences between spot and forward rates, 164–165
 - forward rates, 163
 - futures (commodities) contracts, 163
 - limitations on use of, 231
 - multicurrency accounts, 166
 - recent rates, 162
 - spot rates, 162–163
- Freight and logistics services, 141
- Funds mobilization. *See* Banking
- Global capitalism, advantages, 156–157
- Global financial risk, 158–159
 - economic exposure, 159
 - transaction exposure, 158–159
- translation exposure, 159
- hoovers.com (web site), 12
- Information technology, 175–198
 - application service providers (ASPs), 177–178, 182
 - bank systems, 178–186
 - basic transactional functionality, 178–181
 - modules for advanced services, 179–181
 - modules for standard services, 181–182
 - payment modules, 180
 - enterprise resource planning (ERP), 186–191
 - benefits 189–190
 - disadvantages, 190–191
 - functionality, 186–188
 - purpose, 188–189
 - internal support required, 177
 - Internet technology, 182–186
 - benefits, 183–184,
 - disadvantages, 185–186
 - features, 183
 - support for organizational decision making, 184
 - real cost of, 177
 - selection of systems, 191–197
 - bank vs. ERP, 191–192

- Information technology (*Continued*)
- conducting vendor search
 - (phase 2), 193–194
 - conferences and web site
 - demonstrations, 193–194
 - determining requirements
 - (phase 1), 192–193
 - on-site vs. off-site demonstrations, 194–195
 - principles in selecting, 197
 - providing justification (phase 3), 195–197
 - special status of, 176–178
 - issues to consider, 176–178
 - lack of rigorous evaluation, 176
 - working capital issues, 176–178
 - perceived vs. actual system cost, 177
- International working capital, 155–174.
- See also* Country risk assessment; Foreign exchange; Letters of credit
 - corporate responsibility, 157
 - cultural and corporate practices, 171–173
 - banking, 172
 - communications, 172–173
 - culture, 171–172
 - legal and tax, 173
 - time zones and language, 173
 - elements, 157–160
 - financial disclosure, enhanced, 158
 - pooling and netting, 172
 - recent specialization within finance, 155
 - risk. *See* Global financial risk
 - Sarbanes-Oxley Act of 2002, relationship to, 157–158
 - significance of, 155–156
 - transparency and ethical behavior, 157–158
- Inventory financing, 54, 129–131
- cost, 129
 - industries using, 130
 - issues in using, 130–131
- Inventory management, 111–117
- elements, 112–113
 - metrics of inventory cycle, 115–117
 - organization for, 113
 - policies, 112–113
 - ratios, 113–115
 - interpretation of, 113–115
- Invoice generation, 104–107
- design issues, 105–106
 - invoices vs. statements, 107
 - timing, 106
 - causes of mistakes, 106
- Joint ventures, 231–232
- Just-in-time (JIT), 112, 124. *See also* Supply chain management problems using, 124

- Legislation significant to working
 - capital, 30, 157–158, 260–261
 - effects of deregulation, 62, 64
- Letters of credit, 158–161
 - alternatives in making international payments, 160
 - concept, 159
 - cost, 159
 - documentation, 160
 - bill of lading, 160
- Line of credit, 48–52
 - collateral in support of, 52–53
 - committed and uncommitted, 49
 - fees, 49
 - loan agreement, illustrative, 53–54
 - loan covenants, 50, 53
 - other requirements, 52, 54
 - material adverse change, 53
 - preparing for lender meeting, 48–49
 - profit to banks on, 50–52
 - purpose, 49
- Liquidity and working capital, 207–210
 - adequate amount for business needs, 208–209
 - compared with cash, 209–210
 - measuring and managing, 207–210
 - ratios
 - interpretation of, 8–9
 - supplemental (total receipts to cash flow), 207–209
 - traditional (current and quick ratios), 8–9
- Loan covenants. *See* Lines of credit
- Lockboxing, 30–34. *See also* Checking
 - accounts, problems in using availability, 32
 - drawee bank, determined by, 32
 - check clearing, 33–34
 - calculation of float and processing costs
 - base case, 28–29
 - improvements to base case, 40–41
 - check clearing in depository system, 30
 - cost, 34
 - float reduction, 33–34
 - fraud prevention, assists in, 34
 - holdover of mail, 33
 - imaging, 33
 - procedures, 32
 - retail lockbox, 32–33
 - magnetic character ink recognition (MICR), 33
 - wholesale lockbox, 32
- Material adverse change, 53
- Money market mutual funds (MMFs), 58
- Municipal securities, 59
- Opportunity audit, 4
 - payment stream matrix, 5

- Payroll, 145–149. *See also* Direct
 deposit (of payroll)
 paycards, 147–148
- Phoenix–Hecht *Blue Book of Pricing*, 74
- Processing expenses (and float), 28
- Procurement (purchasing) cards, 140
- Purchasing, 117–122. *See also*
 Economic order quantity;
 Just-in-time
 cost of purchase orders, 118
 purchase order and receiving report,
 121
 purchasing cycle problems, 117–122
 commodities futures contract, 120
 investigating potential problems,
 121–122
 local buying, 119–120
 vendor prices, 118, 120
- Ratio analysis, 7
 activity utilization ratios, 9
 average collection period, 9
 inventory turnover, 9–10
 receivables turnover, 9
 construction of, 7
 leverage ratios, 11
 financial leverage, 11
 times interest earned, 11
 liquidity ratios, 8
 current ratio, 8
 quick ratio, 8
 profitability ratios, 10
 profits to sales, 10
 return on assets, 10
 return on equity, 10
 sources of published ratios, 11–12
 use of ratios, 7, 11–12
 Best Buy example, 16
 cross-sectional analysis, 7
 longitudinal analysis, 7
 problems in use, 12
- Receipts, collection of. *See* Lockboxing
- Repurchase agreement (repo), 58
- Request-for-proposal (RFP), 69–77
 contract review, 77
 service-level agreements, 77
 developing a listing of potential
 bidders, 69
 evaluation of, 75–77
 scoring of proposals, 75–77
 illustrative questions, 72
 issues covered in RFPs, 69–72
 pricing, 70–74
 and quality, 74
 unbundling, 71
 request-for-information (RFI), 69
 templates, source of RFP, 70
- Revolving term loan, 49. *See also* Lines
 of credit
- Risk and working capital, 200–204. *See
 also* Enterprise risk management
 (ERM)

- conventional management of,
 - 201–202
- measurement of, 200
- types, 200–201
 - credit, 201
 - information-reporting, 201
 - liquidity, 201
 - operational, 200
- RMA Annual Statement Studies*, 11, 16,
 - 114
- Sales financing, 98–99
 - outsourcing, 99
 - potential customer effects of,
 - 99
 - transaction specifics, 98
 - types of, 99
- Short-term investments. 54–59. *See also*
 - specific entries*
 - investment options, 55–59
 - policies, 59–60
 - recent investment rates, 57
- Standard & Poor's Industry Surveys,
 - 11
- Supply chain management, 122
 - benefits of, 126
 - economic order quantity (EOQ),
 - 122–124
 - calculation of, 123–124
 - just-in-time (JIT), 124
 - systems for, 127–128
 - capabilities (functionalities),
 - 127–128
 - vendors offering, 128
- Sweeps (investment product), 55–56
 - costs and returns, 56
- Technology. *See* Information
 - technology
- Terms of sale, 103–105
 - cash discounts, 103–104
 - calculation of value, 103–104
 - concerns in offering, 104
 - deciding whether to accept,
 - 104
 - quantity discounts, 105
 - trade discounts, 105
 - Transit routing number (ABA number),
 - 66
- Treasury securities (U.S.), 58–59
 - U.S. agency securities, 58–59
- Troy's *Almanac of Business and Industrial Financial Ratios*, 9, 11, 114, 204,
 - 209
- Value at Risk. *See* Enterprise Risk
 - Management (ERM)
- Value Line*, 11
- Web sites, financial, 238–240
 - commercial banks, 238
 - finance companies, 238

- Web sites, financial (*Continued*)
- government, 240
 - information providers, 239
 - organizations, 240
 - vendors, other, 239
- Work-in-process (WIP), 124–129
- cycle management, 125
- Working capital. *See also* Efficiency and working capital; Liquidity and working capital
- case (Widget Manufacturing)
 - Solutions, 223–232
 - Part I, 19–23
 - Part II, 81–87
 - Part III, 151–153
 - consulting on, 5–6
 - definition of, xi–xii, 1
 - developments in management of, 215–217
 - interconnectivity in the twenty-first century, 220
 - twentieth-century business model, 216
 - twenty-first-century business model, 216–217
 - improving management of, 210–215
 - implementing change ideas, 6, 211
 - focus on cash, reasons for, 206
 - global initiatives, 157–158
 - legislation affecting, 30, 260–261
 - other working capital accounts, 3
 - significance of, 12–15
 - modern view, 13–15
 - traditional view, 13