



SNS College of Technology

Coimbatore - 35



19BAE711- Working capital management

Unit IV- Working capital financing



Presented by
Mr. E. Mohanraj
Design Thinker

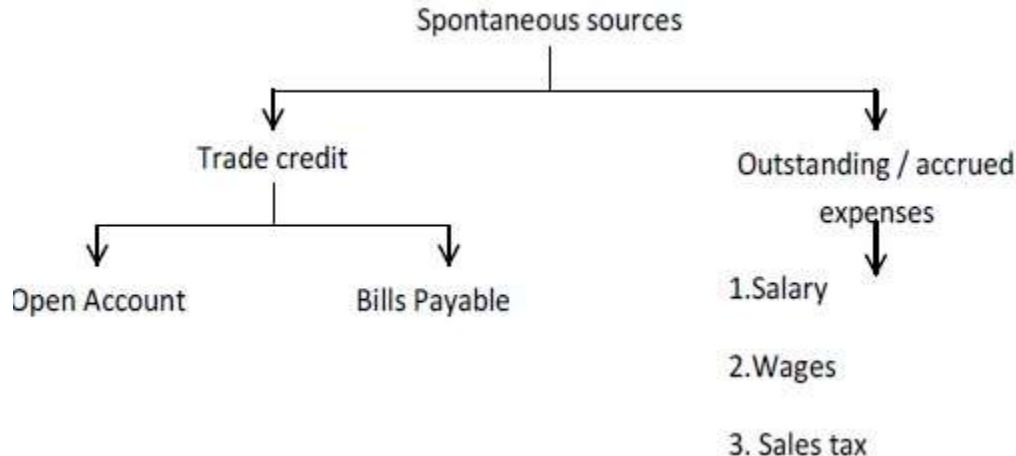
Date: 08/02/2023

1st Indian
Institution
to Implement
Design
Thinking
Curriculum
in
Redesigning Common Mind
and Business Towards



Spontaneous Sources - Sources Of Working Capital

Some sources of funds, which are created during the course of normal business activity have zero cost and are termed as spontaneous sources. For example suppliers supply goods; employees provide services where the payment are made at a latter stage. To an extent, the payment is delayed and the funds are made available to the firm. These are called trade liabilities or current liabilities. The two important spontaneous sources of short-term finance are (a) Trade credit and (b) Outstanding expenses / accrued expenses.





A. Trade Credit

The credit extended in connection with the goods purchased for resale by a retailer or a wholesaler for materials used by manufacturers in producing its products is called the trade credit.

Trade credit is a form of short-term financing common in almost all types of business firms. As a matter of fact, it is the largest source of short-term funds. The amount of such financing depends on the volume of purchase and the payment timings. Small and new firms are usually more dependent on the trade credit, as they find it difficult to obtain funds from other sources. This trade credit may be extended to the customers in the form of



1. An opening account credit and
2. Acceptance credit management / bills payable.



(i) Open Account

Trade credit is mostly an informal arrangement, and is granted on an open account basis. Open account is usually extended only after the seller conducts a fairly extensive investigation of the buyer's standard and reputation. In the case of open account credit arrangement the buyer does not sign any formal debt instrument as an evidence of the amount due by him to the seller. The only evidence is the copy of the invoice that goods have been delivered. Open account trade credit appears as Sundry creditors on the buyer's balance sheet in the liability side.



(ii) Acceptance credit / Bills payable

Trade credit may also take the form of Bills payable. In such a case the buyer accepts a bill of exchange or gives a promissory note for the amount due by him to the seller. This bill has specified future date, and is usually used when the supplier is less sure about buyers' willingness and ability to pay or when the suppliers' wants cash by discounting the bill from a bank. Thus, it is an arrangement by which the indebtedness of the buyer is recognized formally. This appears in the buyer's balance sheet as accounts payable or bills payable.





Outstanding /Accrued expenses

1.Salary



Wages Meaning

2.Wages



3.Sales tax





Outstanding /Accrued expenses

1.Salary



Wages Meaning

2.Wages



3.Sales tax

Sales Tax





ASSESSMENT

Trade credit is the connection with the goods purchased for resale by the retailers or wholesaler.

.True

.False

What is acceptance credit?

- A. Trade credit may also take the form of bills payable
- B. Trade credit may not take the form of bills payable





Summary

- Spontaneous sources
- Trade credit
- Open account
- Bills payable
- Outstanding / accrued expenses

SUMMARY





Reference

- <https://www.shipbob.com/blog/credit/>
- [https://homework.study.com/explanation/spontaneous-sources-of-funds-refers-to-all-of-the-below-except-a-accruals-b-a-bank-loan-c-accounts-payable-d-all-of-the-above-are-considered-spontaneous-sources-of-funds.html#:~:text=Accounts%20payables%20\(trade%20credit\)%20and,of%20funding%20for%20a%20firm.](https://homework.study.com/explanation/spontaneous-sources-of-funds-refers-to-all-of-the-below-except-a-accruals-b-a-bank-loan-c-accounts-payable-d-all-of-the-above-are-considered-spontaneous-sources-of-funds.html#:~:text=Accounts%20payables%20(trade%20credit)%20and,of%20funding%20for%20a%20firm.)





Reach Us



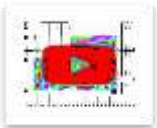
snsinstitutions



snsinstitutions



snsinstitutions



snsinstitutions



snsinstitutions

