



# SNS COLLEGE OF TECHNOLOGY

(An Autonomous Institution)

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**COIMBATORE-641 035, TAMIL NADU**

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## 19BAE711 – Working Capital Management

### Unit V – Working Capital Financing

#### 2 MARKS

##### 1. What is meant by financing current assets?

Using an aggressive financing strategy, a company will finance a portion of permanent current assets and all temporary current assets with short-term sources. Long-term financing is used to fund the other portion of permanent current assets and fixed assets.

##### 2. What is meant by trade credit?

An arrangement to buy goods or services on account, that is, without making immediate cash payment. For many businesses, trade credit is an essential tool for financing growth. Trade credit is the credit extended to you by suppliers who let you buy now and pay later.

##### 3. What is meant by commercial paper?

Commercial paper is an unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meeting short-term liabilities. Commercial paper is usually issued at a discount from face value and reflects prevailing market interest rates.

##### 4. What do you understand by the term conservative approach?

Conservative approach is a risk-free strategy of working capital financing. A company adopting this strategy maintains a higher level of current assets and therefore higher working capital also. The major part of the working capital is financed by the long-term sources of funds such as equity, debentures, term loans etc. So, the risk associated with short-term financing is abolished to a great extent.

### **5. What is meant by aggressive approach?**

An aggressive investment strategy is a means of portfolio management that attempts to maximize returns by taking a relatively higher degree of risk. An aggressive investment strategy emphasizes capital appreciation as a primary investment objective, rather than income or safety of principal.

### **6. What is meant by matching approach?**

'Matching Strategy' The acquisition of investments whose pay-outs will coincide with an individual or firm's liabilities. Under a matching strategy, each investment is chosen based on the investor's risk profile and cash flow requirements.

### **7. What is known as inter-corporate deposits?**

Inter-company deposit is the deposit made by a company that has surplus funds, to another company for a maximum of 6 months. It is a source of short-term financing. Types: Such deposits are of three types: 1. Call Deposit: Such a type of deposit is withdrawn by the lender by giving a notice of one day.

## **16 MARKS**

1. Explain the different approach to financing current assets?
2. Explain the sources of finance committee on working capital finance?
3. Explain the types of security?
4. What are the working capital leverage?
5. Explain the sources of short term financing