

**Commerce 4FQ3 C01
Working Capital Management
Winter 2020 Course Outline**

**Finance & Business Economics Area
DeGroote School of Business, McMaster University**

COURSE OBJECTIVE

The major objective of this course is to understand and apply the principles and techniques of managing working capital or short-term corporation finance. We will examine the key components of working capital, including cash, inventory, receivables, and payables, as well as short-term investment, financing and hedging decisions. The focus will be on financial decision making with regard to working capital issues, the objective being to maximize shareholder wealth. We will also spend some time on short-term survival and liquidity aspects of corporate finance. Both lectures and case studies will be used to explore these topics.

INSTRUCTOR AND CONTACT INFORMATION

Tue 2:30 – 5:20 PM
Dr. Sudipto Sarkar

Instructor

sarkars@mcmaster.ca

Office: DSB 302

Office Hrs: Wed 10 AM – 12 PM

Tel: (905) 525-9140 x23959

Class Location: KTH B124

TA: Sima Tafti

Details TBA

E-mail: TBA

COURSE ELEMENTS

Credit Value:	3	Leadership:	Yes	IT skills:	No	Global view:	Yes
WebCT:	No	Ethics:	Yes	Numeracy:	Yes	Written skills:	Yes
Participation:	Yes	Innovation:	Yes	Group work:	Yes	Oral skills:	Yes

COURSE DESCRIPTION

This course examines the various components of working capital (cash, receivables, payables, inventory), how they interact with one another, and how they affect (i) firm liquidity and default risk, and (ii) shareholder wealth. The course will build on the principles of financial management that you have learnt in earlier course(s), and will apply the principles and concepts of financial theory to problems and decisions associated with short-term (working) capital. We will focus on using working capital optimally, so that not too much money is tied up in unproductive assets and at the same time the risk of illiquidity (and related default risk) does not exceed desired limits. The ultimate objective, as always, is to maximize shareholder wealth. This course includes both theoretical and applied components. Practical applications are useful, but cannot be studied fruitfully without a sound knowledge of the underlying theory. Hence there will be considerable emphasis on the theory. Numerical examples will be very important in illustrating the concepts and applications to be covered in this course. The format will be predominantly lecture-oriented, supplemented by a set of cases. The course should be of interest to students planning careers in corporate finance and financial management.

LEARNING OUTCOMES

Upon completion of this course, students will be able to complete the following key tasks:

- analyze the effects of working capital policies on equity value and default risk;
- design optimal working capital policies (cash, inventory, etc), given the characteristics of the industry and the firm;
- determine the best way to invest surplus short-term funds and the best way to raise short-term funds; and
- design an optimal overall working capital management policy for the firm.

REQUIRED COURSE MATERIALS AND READINGS

Course Packet

- purchase a copy at :
Print Factory Ink, 9 Sterling Street, Hamilton, ON L8S 4H6.

EVALUATION

All work will be evaluated on an individual basis except for the case report and case presentation where group work is expected. For the case report and presentation, all group members will receive the same grade. Your final grade will be calculated as follows:

Components and Weights

Test 1	Individual	25%
Test 2	Individual	30%
Test 3	Individual	35%
Case Report and Presentation	Group	10%
Total		100%

NOTE:

1. Only the use of a McMaster standard calculator (Casio FX-991) is allowed during examinations in this course.

<http://www.mcmaster.ca/senate/academic/calculat.htm>

2. For the tests, you will be allowed to bring one page (single side) of *formulas*.

3. For the case study, the students will work in groups (maximum group size to be announced, and will depend on class size). Each group will submit a report and present their recommendations on the allotted case. The case report will be 4-5 pages in length (plus exhibits) and should contain recommendations and supporting arguments. There are questions in the courseware to guide you when writing the report. Any doubts/questions/uncertainties regarding the case will ideally be addressed by the group members themselves. Where necessary, make reasonable assumptions based on information given in the case. Please do not use information that would not have been available to the decision maker(s).

COMMUNICATION AND FEEDBACK

Students who wish to correspond with instructors or TAs directly via email must send messages that originate from their official McMaster University email account. This protects the confidentiality and sensitivity of information as well as confirms the identity of the student. Emails regarding course issues should NOT be sent to the Area Administrative Assistants. Instructors are required to provide evaluation feedback for at least 10% of the final grade to students prior to Week #9 in the term. Instructors may solicit feedback via an informal course review with students by Week #4 to allow time for modifications in curriculum delivery.

ACADEMIC DISHONESTY

You are expected to exhibit honesty and use ethical behaviour in all aspects of the learning process. Academic credentials you earn are rooted in principles of honesty and academic integrity.

Academic dishonesty is to knowingly act or fail to act in a way that results or could result in unearned academic credit or advantage. This behaviour can result in serious consequences, e.g. the grade of zero on an assignment, loss of credit with a notation on the transcript (notation reads: “Grade of F assigned for academic dishonesty”), and/or suspension or expulsion from the university.

It is your responsibility to understand what constitutes academic dishonesty. For information on the various types of academic dishonesty please refer to the Academic Integrity Policy, located at www.mcmaster.ca/academicintegrity.

The following illustrates only three forms of academic dishonesty:

1. Plagiarism, e.g. the submission of work that is not one’s own or for which other credit has been obtained.
2. Improper collaboration in group work.
3. Copying or using unauthorized aids in tests and examinations.

REQUESTING RELIEF FOR MISSED ACADEMIC WORK

Students may request relief from a regularly scheduled midterm, test, assignment or other course components. Please refer to the policy and procedure on the DeGroot website at the link below;

<http://ug.degroot.mcmaster.ca/forms-and-resources/misled-course-work-policy/>

STUDENT ACCESSIBILITY SERVICES

Students who require academic accommodation must contact Student Accessibility Services (SAS) to make arrangements with a Program Coordinator. Academic accommodations must be arranged for each term of study. Student Accessibility Services can be contacted by phone 905-525-9140 ext. 28652 or e-mail sas@mcmaster.ca.

For further information, consult McMaster University’s Policy for Academic Accommodation of Students with Disabilities:

<http://www.mcmaster.ca/policy/Students-AcademicStudies/AcademicAccommodation-StudentsWithDisabilities.pdf>

POTENTIAL MODIFICATIONS TO THE COURSE

The instructor and university reserve the right to modify elements of the course during the term. The university may change the dates and deadlines for any or all courses in extreme circumstances. If either type of modification becomes necessary, reasonable notice and communication with the students will be given with explanation and the opportunity to comment on changes. It is the responsibility of the student to check their McMaster email and course websites weekly during the term and to note any changes.

ACKNOWLEDGEMENT OF COURSE POLICIES

Your enrolment in Commerce 4FQ3 will be considered to be an implicit acknowledgement of the course policies outlined above, or of any other that may be announced during lecture and/or on A2L. **It is your responsibility to read this course outline, to familiarize yourself with the course policies and to act accordingly.**

Lack of awareness of the course policies **cannot be invoked** at any point during this course for failure to meet them. It is your responsibility to ask for clarification on any policies that you do not understand.

COURSE SCHEDULE

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WEEK	DATE	ASSIGNMENT
1	Tue Jan 7	Ch. 1 CP; Introduction
2	Tue Jan 14	Ch. 2, CP; Effects of Working Capital Decisions
3	Tue Jan 21	Ch. 3, CP; Inventory Management
4	Tue Jan 28	Test 1.
5	Tue Feb 4	Ch. 4, Accounts Payable; Ch. 5, Accounts Receivable
6	Tue Feb 11	Ch. 5, CP; Accounts Receivable (continued)
7	Tue Feb 18	<i>Mid-term Recess</i>
8	Tue Feb 25	Ch. 6, CP; Collections and Disbursements
9	Tue Mar 3	Test 2
10	Tue Mar 10	Ch. 7, CP; Forecasting
11	Tue Mar 17	Ch. 8, CP; Short-term Investments
12	Tue Mar 24	Ch. 9, CP; Short-term Financing; Ch. 10, CP; Risk Management
13	Tue Mar 31	Course recap; Test 3.
14	Tue Apr 7	Case presentations