

**Commerce 4FQ3 C01
Working Capital Management
Winter 2023 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

Fri 11:30 AM – 2:20 PM
DSB B105
Instructor: Dr. Sudipto Sarkar
E-mail: sarkars@mcmaster.ca
Office Hrs: **TBA**
(virtual)

COURSE ELEMENTS

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|----------------|-----|-------------|-----|-------------|-----|-----------------|-----|
| 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 the firm's liquidity and default risk, as well as 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.

COURSE MATERIALS AND READINGS

Courseware: available on *Avenue to Learn*.

Cases: you will need to purchase a digital copy from the publisher's website, links given below:

C.R. Plastics

<https://www.iveypublishing.ca/s/product/c-r-plastics/01t5c00000Cwr6vAAB>

Horniman Horticulture

<https://www.iveypublishing.ca/s/product/horniman-horticulture/01t5c00000CwdrNAAR>

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| EVALUATION |
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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 | 20% |
| Test 2 | Individual | 35% |
| 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).

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| COMMUNICATION AND FEEDBACK |
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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. All students must receive feedback regarding their progress prior to the final date by which a student may cancel the course without failure by default.

- For Level 1 and Level 2 courses, this feedback must equal a minimum of 20% of the final grade.
- For Level 3 courses and above, this feedback must equal a minimum of 10% of the final grade.

Instructors may solicit feedback via an informal course review with students by Week #4 to allow time for modifications in curriculum delivery.

ACADEMIC INTEGRITY

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. **It is your responsibility to understand what constitutes academic dishonesty.**

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.

For information on the various types of academic dishonesty please refer to the [Academic Integrity Policy](https://secretariat.mcmaster.ca/university-policies-procedures-guidelines/), located at <https://secretariat.mcmaster.ca/university-policies-procedures-guidelines/>

The following illustrates only three forms of academic dishonesty:

- plagiarism, e.g., the submission of work that is not one’s own or for which other credit has been obtained.
- improper collaboration in group work.
- copying or using unauthorized aids in tests and examinations.

REQUESTING RELIEF FOR MISSED ACADEMIC WORK

In the event of an absence for medical or other reasons, students should review and follow the Academic Regulation in the Undergraduate Calendar [“Requests for Relief for Missed Academic Term Work”](#) and the link below:

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

CONDUCT EXPECTATIONS

As a McMaster student, you have the right to experience, and the responsibility to demonstrate, respectful and dignified interactions within all of our living, learning and working communities. These expectations are described in the [Code of Student Rights & Responsibilities](#) (the “Code”). All students share the responsibility of maintaining a positive environment for the academic and personal growth of all McMaster community members, **whether in person or online.**

It is essential that students be mindful of their interactions online, as the Code remains in effect in virtual learning environments. The Code applies to any interactions that adversely affect, disrupt, or interfere with reasonable participation in University activities. Student disruptions or behaviours that interfere with university functions on online platforms (e.g. use of Avenue 2 Learn, WebEx or Zoom for delivery), will be taken very seriously and will be investigated. Outcomes may include restriction or removal of the involved students’ access to these platforms.

STUDENT ACCESSIBILITY SERVICES

Students with disabilities who require academic accommodation must contact [Student Accessibility Services](#) (SAS) at 905-525-9140 ext. 28652 or sas@mcmaster.ca to make arrangements with a Program Coordinator. For further information, consult McMaster University's [Academic Accommodation of Students with Disabilities](#) policy.

ACADEMIC ACCOMMODATION FOR RELIGIOUS, INDIGENOUS OR SPIRITUAL OBSERVANCES (RISO)

Students requiring academic accommodation based on religious, indigenous or spiritual observances should follow the procedures set out in the [RISO](#) policy. Students should submit their request to their Faculty Office **normally within 10 working days** of the beginning of term in which they anticipate a need for accommodation or to the Registrar's Office prior to their examinations. Students should also contact their instructors as soon as possible to make alternative arrangements for classes, assignments, and tests.

COPYRIGHT AND RECORDING

Students are advised that lectures, demonstrations, performances, and any other course material provided by an instructor include copyright protected works. The Copyright Act and copyright law protect every original literary, dramatic, musical and artistic work, **including lectures** by University instructors.

The recording of lectures, tutorials, or other methods of instruction may occur during a course. Recording may be done by either the instructor for the purpose of authorized distribution, or by a student for the purpose of personal study. Students should be aware that their voice and/or image may be recorded by others during the class. Please speak with the instructor if this is a concern for you.

POTENTIAL MODIFICATIONS TO THE COURSE

The University reserves the right to change the dates and deadlines for any or all courses in extreme circumstances (e.g., severe weather, labour disruptions, etc.). Changes will be communicated through regular McMaster communication channels, such as McMaster Daily News, A2L and/or McMaster email.

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.

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| COURSE SCHEDULE |
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**Commerce 4FQ3 C01
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Winter 2023 Course Schedule**

| WEEK | DATE | ASSIGNMENT |
|-------------|-------------|-------------------------------------------------------------------------------------------------------|
| 1 | Fri Jan 13 | Ch. 1: Introduction |
| 2 | Fri Jan 20 | Ch. 2: Effects of Working Capital Decisions |
| 3 | Fri Jan 27 | Test 1. Ch. 3: Inventory Management |
| 4 | Fri Feb 3 | Ch. 3: Inventory Management (continued); Ch. 4: Accounts Payable |
| 5 | Fri Feb 10 | Ch. 5: Accounts Receivable |
| 6 | Fri Feb 17 | Ch. 5: Accounts Receivable (continued) |
| 7 | Fri Feb 24 | <i>No class (mid-term recess)</i> |
| 8 | Fri Mar 3 | Test 2. Ch. 6: Collections and Disbursements |
| 9 | Fri Mar 10 | Ch. 7: Forecasting |
| 10 | Fri Mar 17 | Ch. 8: Short-term Investments; Ch. 9: Short-term Financing |
| 11 | Fri Mar 24 | Ch. 10: Risk Management. |
| 12 | Fri Mar 31 | Test 3. Case Report due; Case presentations. <i>C.R. Plastics and Horniman Horticulture</i> |
| 13 | Fri Apr 7 | <i>No class (Good Friday)</i> |