5-1 Cash Budget and Working Capital

OBJECTIVES

- ***Explain the steps involved in developing a cash budget.***
- ***Identify the elements of working capital.***

CASH BUDGETING PROCESS

"It's time to pay the rent for our office space." What if you don't have the money for this payment? Planning cash inflows and outflows is one of the most important financial activities of an organization. A tool used for this purpose is a cash budget, which is an estimate of future cash receipts and cash payments for a specified period of time.

A cash budget allows a company to prepare adequately for its short and long-term financial activities. The main benefits of a cash budget are to:

- Plan for cash inflows to pay operating expenses
- Decide if short-term borrowing needs exist
- Create an ability to pay debts on schedule
- Determine potential cash shortages
- Plan for long-term spending, also known as capital expenses

As shown in Figure 5-1, a cash budget has three main sections: cash receipts, cash payments, and cash excess or shortage.

FIGURE 5-1

Cash Budget

Cash Receipts	**January**	**February**	**March**	**1st Quarter Total**
Cash sales	$7,200	$6,400	$6,800	$20,400
Collection on account	14,800	11,100	13,400	39,300
Other cash receipts	2,300	1,700	2,200	6,200
Total Cash Received	$24,300	$19,200	$22,400	$65,900
Cash Payments	**January**	**February**	**March**	**1st Quarter Total**
Variable expenses	$9,200	$13,600	$8,300	$31,100
Fixed expenses	8,600	8,600	8,600	25,800
Other cash expenses	1,400	2,600	900	4,900
Total Cash Payments	$19,200	$24,800	$17,800	$61,800
Cash Excess (Shortage)	$5,100	($5,600)	$4,600	$4,100

CASH RECEIPTS

Money coming into an organization is vital for business operations. These funds are necessary to pay workers and for other company expenses. Most organizations have three main sources of cash receipts.

Cash Sales. Stores and other businesses sell various products and services for cash . Often these transactions are a major portion of the company's cash receipts. Cash sales for various types of organizations may include service fees, repair revenue, commission income, tuition, and donations.

Collections on Account. When companies sell on credit, cash will not be received immediately. Instead, a customer pays later, maybe a month or longer. When customers buy on credit, the money owed for these purchases creates an account receivable. Collections on account are an important source of cash receipts for organizations that sell on credit. The time required to collect from credit customers has to be estimated. This projection is usually based on past collection t rends. For example, 80 percent of a company's customers may pay within 30 days. When preparing a cash budget, this cash receipt amount would appear in the month after the sale is made. If the company estimated sales on account of $100,000 in a month, the business would expect $80,000 to be collected on account during the next month from those sales. Of course, additional cash would be received from on account sales in prior months.

Other Cash Receipts. Finally, a business may receive cash from other sources. These cash receipts can be the result of selling unneeded supplies or old equipment. A company may rent excess space to another business. At other times, money from dividends or interest earned may be received. Most often, these types of cash inflows will vary and may not be easily budgeted.

One other source of cash receipts is borrowing or issuing additional stock. When a company expects to have a shortage, a loan may be obtained or the business may seek money from additional investors.

CASH PAYMENTS

Estimating the amount of money going out is the second major element of the cash budgeting process. Most companies and other organizations have three main types of cash payments.

Variable Cash Expenses. Many types of payments are different each month. For example, utilities such as electricity and water will usually change from month to month depending on usage. Utility expenses are examples of variable cash expenses. Other variable expenses may include wages, supplies, materials, repairs, and advertising.

Fixed Cash Expenses. Some business payments are constant from month to month. Expenses such as rent, insurance premiums, or loan payments are examples of fixed cash expenses.

Other Cash Payments. A company may encounter additional cash expenses that are not related to day-to-day operations. Some examples of these other cash payments can include interest on loans, dividends to investors, and income taxes. Payments for capital expenses, such as equipment or buildings, may be included in the cash budget. Often, companies make use of a capital budget to plan for these expensive assets.

CASH EXCESS OR SHORTAGE

When comparing expected cash receipts and cash payments, the result will be a cash excess or shortage. An excess, when receipts exceed payments, may be deposited in a bank account or invested. A cash shortage must be covered by borrowing.

Financial planning for a business usually requires that a minimum cash amount will be available at all times. This amount will depend on various factors, such as expected future cash flows and company needs. The minimum cash amount should allow a company to pay workers and other operating expenses for a month. Having an adequate cash balance allows an organization to be prepared for unexpected situations without needing to borrow. Too small a cash reserve has obvious consequences. A large cash balance also has costs. Maintaining a large cash reserve means these funds cannot be used for other purposes, such as inventory or new equipment.

CASH CONTROL METHODS

Cash can be a major target for theft. To assure safekeeping of an organization's money, various guidelines are suggested. These include:

- Clear procedures for handling cash that are communicated to all staff members
- A system that divides responsibilities among those who receive and those who deposit cash
- A process that separates the preparation and approval of cash payments

Traditionally, companies used the principle of "deposit all cash received, and make all payments by check." This rule helped to avoid the possibility of inappropriate use of currency (bank notes and coins). Today, since many payments are made electronically, additional procedures must be developed. Various computer programs are available to manage and control cash activities. This software helps companies track receipts and payments while building in procedures that reduce opportunities for theft and fraud.

WORKING CAPITAL

In addition to cash, every organization makes use of other items in its daily financial activities. Working capital is the difference between current assets and current liabilities.

ELEMENTS OF WORKING CAPITAL

As shown in Figure 5-2 on the next page, the working capital of a company consists of two major elements: current assets and current liabilities.

FIGURE 5-2

Working Capital

Current Assets	–	**Current Liabilities**	=	**Working Capital**
items of value that will be converted to cash within a year		amounts due to be paid within a year		
Examples		**Examples**		
cash, accounts receivable, inventory		accounts payable, taxes, short-term loans		

Current Assets. Items of value in an organization that will likely be converted into cash within a year are called current assets. These assets commonly include cash, accounts receivable, inventory, and other liquid assets. Current assets are the basis of day-to-day financial activities such as paying expenses, collecting money from customers, and selling items to generate a profit.

Current Liabilities. Organizations also have debts that will be paid shortly. Current liabilities are amounts owed that need to be paid within the next year. One of the most common current liabilities is accounts payable. These are amounts owed to suppliers and others for items bought on credit by the company. Other current liabilities would include any short-term debts of the organization, such as loans coming due or taxes owed.

MANAGING WORKING CAPITAL

Working capital is an indication of the amount of net liquid assets a company has available to build its business. This number can be positive or negative. Companies with negative working capital (current liabilities exceeding current assets) may lack the funds necessary for growth. The organization may have too much short-term debt or may not be carrying enough items in inventory. In general, businesses with more working capital have a greater potential for success. These companies can expand and improve their business activities.

Too many current assets may indicate that a company is not using available funds wisely. Excess levels of inventory or not collecting accounts receivable on time suggests a weak financial situation.

To determine an appropriate level of working capital, a company might calculate its current ratio. This number, sometimes also referred to as the liquidity ratio, is calculated by dividing current assets by current liabilities. When this ratio is 1.0 or greater, the company has adequate current assets to cover debts coming due shortly. If the current ratio is below 1.0, the company may not be able to pay upcoming bills on time.

If a company has total current assets of $1,000,000 and its total current liabilities are $800,000, its current ratio would be 1.25 ($1,000,000 divided by $800,000). Is this an appropriate current ratio? A simple answer is "it depends!" When assessing the current ratio (or other financial ratios) of a company, consider three factors.

- The current ratio of the company in the past few years
- The current ratios of other companies in the same industry
- Current economic conditions

An analysis of these items will help a company decide if it needs to increase or decrease the amount of current assets and liabilities.

FOCUS ON: Cash Flows for Nonprofit Organizations

Millions of low-income, unemployed, and self-employed people are without adequate health insurance. To assist these persons, community health care facilities are formed to provide medical services. These health care clinics are often organized on a nonprofit basis. The organizations usually have three main sources of cash inflows:

1. Grants
2. Donations
3. Fees from clients

Staff members are continually seeking funding sources and applying for grants. State and federal government agencies provide opportunities to finance health care programs for lower-income populations. Foundations also exist to serve various social needs. These charitable organizations, often funded by major corporations, provide grants to serve people in difficult economic situations. Donations to these health clinics are tax deductible since they are tax-exempt, nonprofit organizations. Donors report amounts given to charitable organizations on federal income tax returns to reduce their taxable income. To *attract additional donations, clinics often plan marketing and promotional activities. A community health fair can expand awareness of preventive health practices while also increasing potential donations. The fees received from clients are often a minor portion of cash inflows. While patients are often charged a small amount, it still may be more than they can afford. Service is rarely denied to those not able to pay. As health care costs rise, clinics encounter increasing operating expenses and need additional sources of cash. They also try to improve efficiency and reduce operating costs. For example, reducing inventory levels until supplies are needed can lower costs. Having supplies donated may also be a strategy. Many nonprofit organizations do not use the most modern financial record keeping procedures. Efforts to use improved cash budgeting systems can help health clinics and other nonprofit organizations better plan their cash receipts and spending activities.*

5-2 Inventory Management

OBJECTIVES
- ***Describe the types of inventory for a company.***
- ***Identify costs associated with inventory and manufacturing.***

INVENTORY ACTIVITIES

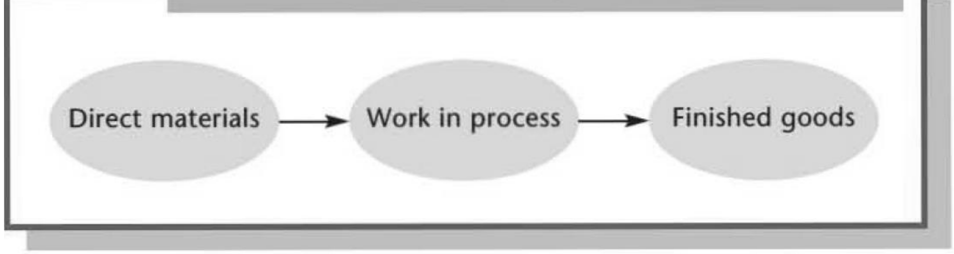
Companies that make or sell goods must have products available for shipping and selling. Inventory is the merchandise an organization plans to sell to customers. Sometimes called merchandise inventory, these items are part of a company's current assets. Like other current assets, inventory is considered to be fairly liquid.

TYPES OF INVENTORY

The inventory of a retailing company consists of products in its stores that will be sold to customers. These items may include shirts, MP3 players, packaged food, or hammers. Retailers have finished (ready-to-use) products in inventory. In contrast, as shown in Figure 5-3, a manufacturing company will have likely three types of inventory items--direct materials, work in process, and finished goods.

- inventory turnover
- breakeven point
- variable costs
- fixed costs

FIGURE 5-3 Manufacturing Company Inventories



Direct Materials. Every manufacturing company uses parts and supplies to create the items that they sell. Direct materials, also called raw materials, are unfinished goods used by a manufacturer to create a finished product. The direct materials for different types of manufacturing companies will vary. For example, a food processing company will make use of raw fruits and vegetables, packaging materials, and labels. An automobile assembly plant is likely to have over 8,000 different parts.

Work in Process. During the production process, items in various stages of completion are called work in process. These items, also called unfinished goods, have value added to them. Some raw materials, labor activities, and other expenses have been used to create the work-in-process items.

Finished Goods. Products that have completed the manufacturing process and are ready to sell are finished goods. These inventory items are ready to be shipped to various wholesalers and retailers. The sale of the final product is vital to the success of an organization. A measure commonly used to determine how many times inventory is sold and replaced is inventory turnover. This measure is calculated by dividing sales by inventory. The resulting ratio provides an indication of how many times the average inventory has been sold. Low turnover is an unhealthy sign, indicating excess stock and/or poor sales. The higher the turnover, the better the inventory is being managed.

INVENTORY CONTROL METHODS

Similar to cash, companies must develop methods to prevent loss of inventory. The loss of inventory can be expensive for an organization. Actions commonly recommended to control inventory loss include:
- Create a system of documentation to check product type and amounts of incoming and outgoing items
- Separate responsibilities for authorizing, order preparation, and shipping of inventory

- Conduct a regular physical inventory (at least once a year) to count the actual items in stock
- Use technology such as bar codes, scanners, and radio frequency identification (RFIO) to update records and monitor product locations

COST MANAGEMENT

The efficient use of materials and labor to create products to sell is the main focus of many companies. In a retailing business, the desired items must be available when requested by customers. In a manufacturing business, the costs of production must be analyzed in order to operate a profitable enterprise.

INVENTORY COSTS

Holding inventory has a cost. First, an opportunity cost exists, since the money and space consumed by inventory cannot be used for other business needs. Next, actual financial costs of inventory also are present. These include:

1. Storage and tracking costs
2. Insurance, taxes, and interest
3. Losses due to spoilage, damage, and theft

Companies face a difficult situation when deciding how many products to keep on hand. Having too large an inventory can result in higher storage costs and losses due to outdated products. In contrast, too small an inventory can result in lost sales. For example, if a restaurant runs out of a popular menu item, customers may hesitate to visit the restaurant in the future. The company must take appropriate action, which may include the need to find additional suppliers to meet customer demand.

BREAKEVEN ANALYSIS

In the production process, companies must calculate the costs of goods being manufactured. Determining the breakeven point gives the approximate sales volume required to just cover costs, below which production would be unprofitable and above which it would be profitable. Breakeven analysis focuses on the relationship between fixed cost, variable cost, and profit.

Variable Costs. Labor costs, production materials, and utilities are considered variable costs. These business expenses change in proportion to the level of production. Although the variable cost per item stays the same, total variable cost increases as production levels rise.

Fixed Costs. Business expenses that do not change as the level of production changes are called fixed costs. These expenses include rent, property tax, managers' salaries, and insurance. If a company pays $4,000 a month to rent a factory, that amount will be the same whether 20 radios are produced or 20,000 radios are produced.

Breakeven Point. The process to calculate the breakeven point involves two steps.

Step 1
Determine the gross profit, which is the difference between the variable costs and the selling price. For example, a shirt costs $6 (variable costs) to make and sells for $10. The gross profit per item is $4.

Selling Price - Variable Costs = Gross Profit per Unit
$10 - $6 = $4

Step 2
To obtain the breakeven point, divide the total fixed costs by the gross profit per unit. If the company has $24,000 in fixed costs, it must sell 6,000 units to cover all of its fixed costs.

Total Fixed Costs ÷ Gross Profit per Unit = Breakeven Units
$24,000 ÷ $4 = 6,000 units

At the breakeven point, a company has no profit. Selling fewer items than the breakeven point will result in a loss. Sales higher than the breakeven point will result in a profit for the business.

FOCUS ON: Radio Frequency Identification (RFID) Devices for Inventory Control

A warehouse manager must keep track of inventory. In the past, the warehouse manager would hope the items were in the warehouse or on a truck. Today, inventory can be tracked with accuracy using radio frequency identification devices (RFIDs). Through electronic tracking, RFIDs tell the exact location of inventory. This system reduces theft and misplaced inventory. Two components make up an RFID system. First, the data-loaded tag (the transponder) is attached to the item to be tracked. These computer chips have small antennas that transmit a unique code to an inventory control system. Second, a reader (the transceiver) captures the tag's data using radio waves. This data is then sent to a computer for processing. Manufacturers are implementing RFID tags on cases and pallets of their products for improved inventory control. Eventually, individual products will also be tagged. Retail stores will use RFID tagging. RFID systems increase efficiency with in the supply chain. The ability to replenish shelves faster results in fewer out-of-stock items. It is expected that the tags will ultimately replace the current bar code technology. What are the implications of RFID for consumers? Here is one possibility: while walking in a mall, you receive a text message on your cell phone. You are informed that a certain item is on sale at a store as you walk by that exact store. This message could be both convenient and frightening. RFID tags in clothing labels and other products will allow tracking of both products and people. These devices are already being used for highway toll lanes, pets, library books, and baggage tracking by airlines. In the future, RFIDs may be used in homes to turn on appliances and monitor heating and security.

5-3 Payroll Management

OBJECTIVES

- ***Describe compensation methods used by companies.***
- ***Explain activities associated with preparing the payroll.***

EMPLOYEE PAY SYSTEMS

Another short-term financial activity of interest to companies and their employees is payroll. Every organization hopes to pay its workers at a level that will encourage loyalty and excellent performance. Compensation refers to the wages or salary along with other financial benefits paid to employees.

TYPES OF COMPENSATION

The compensation payments received by workers are commonly viewed in two major categories: direct and indirect.

Direct Compensation. Money received for work efforts is referred to as direct compensation. These payments can include wages, salary, commissions, overtime, and bonuses. In some work settings, direct compensation can be affected by a shift differential. For example, in some types of work a person may be paid a higher rate for working nights or weekends.

Indirect Compensation. Payments made by an employer on behalf of an employee are indirect compensation. These items commonly include various employee benefits such as insurance, pension funds, and educational expenses.

COMPENSATION METHODS

The methods used to determine the amount a person is paid can vary. In some companies workers are paid on the basis of an hourly rate. In other organizations, employees may earn a percentage of the sales they make.

Wages and Salary. Many employees are paid on an hourly basis. Wages refer to the earnings of workers calculated on an hourly basis. A person's total earnings are determined by the hourly rate of pay multiplied by the number of hours worked. Salary refers to earnings calculated on the basis of a time period, usually weekly, bi-weekly, or monthly.

Piece Rate. In some manufacturing situations, workers may be paid on a piece rate. Earnings are determined on the basis of each unit of output. For example, in an electronics assembly plant, workers may be paid 45 cents for each item assembled, and they can produce between 40 and 45 items per hour. These workers would earn between $18 and $20.25 an hour.

Commission. In various professions, compensation may be based on sales volume. Commission is compensation earned by salespeople or others as a percentage of sales. Some retail store sales staffs and many field sales personnel earn a living based on commission. A person who only works on commission may receive a draw. This amount is an advance in earnings to provide the worker with an income to meet necessary living expenses. The amount of the draw is eventually subtracted from future commission earnings.

EMPLOYEE BENEFITS

As part of a compensation package, most businesses provide employees with various additional benefits. The most common benefits are insurance (health, life, and disability), paid or unpaid vacation time, sick leave, continuing education expenses, and retirement plan deposits. In an effort to recruit and retain quality employees, companies may offer other types of benefits. Such benefits might include fitness and wellness programs, discounts for company products and services, mileage, transportation and parking fees, and participation in community service during company time.

PAYROLL ACTIVITIES

Maintaining payroll records and preparing payments is an ongoing financial activity. While time cards were often used in the past to determine pay, today most payroll procedures are processed electronically.

PAYROLL PREPARATION AND TAXES

A payroll record is the form that documents each employee's pay history. This form also includes each employee's name, Social Security number, address, other personal information, tax information, and eligibility for benefits. The payroll record provides complete information of an employee's gross pay, which is the person's total earnings. In addition, a record of the net pay is also maintained. Net pay is the amount, after various deductions, which is paid to each employee. The payroll record is also used to keep track of current and year-to-date taxes and other deductions.

Income Taxes. The federal government of the United States requires that federal income tax be withheld from workers' pay. This money is then sent to the U.S. Treasury. Each year, in April, taxpayers file their federal tax return to determine if they owe additional money or if they will receive a refund. All but seven states have a state income tax. Deductions for this tax are also taken from the current earnings of workers. Many cities, such as Cincinnati, Detroit, Grand Rapids, and New York City, have a city income tax.

Social Security and Medicare. In 1934, Congress created the Social Security system to provide retirement benefits to eligible workers. This deduction may be listed as FICA (Federal Insurance Contributions Act). FICA also funds disability insurance and survivor benefits through Social Security. In 1965, Medicare was created to provide health insurance for people aged 65 and older. Payroll deductions for this program also fund health coverage for eligible disabled people under age 65.

Other Voluntary Deductions. In addition to the required government payroll deductions, employees often opt for other deductions that provide various benefits. These voluntary deductions might include

- Health or life insurance
- Savings for future personal use
- Deposits to retirement funds
- Charitable donations
- Union dues or dues for other employee organizations

Employer Taxes. In addition to the taxes deducted from an employee's earnings, other taxes are the responsibility of the business. Unemployment insurance is a cooperative program between the federal and state governments. This coverage is financed through federal and state employer payroll taxes.

The Federal Unemployment Tax Act (FUTA) requires companies to pay money to fund state workforce agencies. In addition, FUTA covers the costs of unemployment benefits and job service programs in all states. State unemployment taxes are paid to state agencies and are used to pay benefits to eligible unemployed workers.

Employers also match the amount deducted from employee earnings for FICA and Medicare. For every dollar subtracted from workers' pay for these taxes, the company pays a dollar. That amount is then sent to the federal government for these retirement and insurance programs.

PAYROLL PAYMENT METHODS

The methods used by companies to distribute payroll funds can vary from traditional systems to electronic programs.

Check Payments. Traditionally, workers have been paid by check. These documents most often included a payroll stub, which provided employees with a summary of their total pay and deductions for the current pay period as well as for the year to date.

Direct Deposit. Today, people are writing fewer checks and using more online payment services. With the expansion of electronic banking, most employers offer direct deposit. Direct deposit is a system that electronically transfers net pay into an employee's bank account. The employee still receives a payroll stub, but it also can be provided electronically.

Prepaid Bank Cards. In the United States, over 20 million people do not have access to bank accounts. These are mostly lower-income workers and recent arrivals to the country. To assist these employees, some companies issue a prepaid bank card with the amount of the person's pay. Also called stored value cards, these electronic devices may be used to obtain cash and make purchases at stores.

5-4 Credit Sales and Receivables

OBJECTIVES

- ***Explain the elements of a credit policy.***
- ***Describe accounts receivable management activities.***

CREDIT POLICY

Sales on account are very common in most businesses. Extending credit to customers is an activity offered by nearly every company. When deciding who can buy on account, organizations create a credit policy. which details the guidelines used for approval of credit customers.

WHO WILL BE GRANTED CREDIT?

Most organizations that provide credit consider three main factors when deciding who will be allowed to buy on credit.

1. The ability of the borrower to repay money owed is known as capacity. This potential is based on income and other cash sources of the credit applicant. Also considered is the amount of additional debt the borrower currently owes.
2. In some credit situations. a specific asset, known as collateral, is used to secure a loan. Common items of value such as stocks, bonds, real estate, or vehicles are used for this purpose. They can be sold, if necessary, in order to satisfy the debt. Many credit situations are unsecured loans, which have no specific collateral. Unsecured credit relationships involve a higher risk than those with collateral.
3. The past credit history of the borrower is also considered when deciding whether to grant credit. Information on the credit rating of a person or company may be obtained from a credit reporting agency.

WHAT ARE THE CREDIT CONDITIONS?

Once a person is accepted to buy on account, a company must decide how soon the funds must be repaid. Credit terms are the conditions under which credit is extended by a lender to a borrower. These conditions address various elements of the agreement, such as:

- Whether the buyer or the seller will pay delivery changes
- The number of days in which payment is expected
- Penalty or interest for late payments
- Discounts for early payments

CREDIT TERMS

Credit terms are often expressed as:

2/10, n/30 ***The 2 is the percentage of discount (2 percent) offered to the customer if the invoice is paid within 10 days. The n/30 indicates that the full (or net) amount is due within 30 days.***

For example, a $100 sale on May 1 would allow a customer to pay only $98 ($100 minus $2 discount) if the invoice is paid by May 11 (within the 10-day discount period). If payment is not made by May 11, the full amount ($100) is due by May 31.

When the credit terms do not involve a discount, the terms could be expressed as n/30 or n/60. In these situations, the full amount would be due in 30 or 60 days.

A customer who has not been approved for credit in advance is expected to pay cash upon delivery of the good or service. Sometimes the terms of a sale may require payment prior to delivery.

RECEIVABLE MANAGEMENT

After a customer makes a purchase and is sent an invoice, an account receivable is created. At this point, the customer must follow the terms of the sale. If payment is due within 30 days and is not received, some actions may be necessary.

CREDIT MANAGEMENT ACTIVITIES

A credit manager continually monitors a company's receivables to avoid uncollectible accounts. This process actually starts as soon as credit is granted.

When reviewing past due accounts, a credit manager may use a process called aging of accounts receivable. This activity involves categorizing accounts receivable based on how long they have been due. The first category would be "Current" or "Not Past Due," which are the accounts that are still within the original credit period, such as 30 days. Other categories commonly used are "30 Days Overdue," "31-60 Days Overdue," and "Over 61 Days Overdue." This process can help a credit manager make wiser decisions when granting credit. Having many past due accounts usually indicates a need to reassess the process being used to sell on account.

The longer an account is overdue, the less likely it will be collected. At some point, an account may be considered uncollectible. These bad debts then become expenses of the company.

DEBT COLLECTION PROCEDURES

Once an account is past due, credit managers may take one or more of these actions.

1. Contact the debtor to remind the person of the amount that is due.
2. Provide a stronger reminder; encourage the customer to contact the company to make payment arrangements. Most companies will negotiate a settlement since some amount received is better than none.
3. Consider legal action (such as small claims court) or use of a debt collection agency.

To protect customers from unreasonable debt collection actions, the Fair Debt Collection Practices Act was enacted in 1978. This legislation protects a person from inappropriate actions by debt collectors; for example:

- A person may not be contacted by a debt collector at unreasonable times or places, such as before 8 a.m. or after 9 p.m.
- A person may not be called at a place of employment, if contact at work is prohibited by an employer.
- The debt collector may not tell anyone other than the debtor and the debtor's attorney that money is owed.

Chapter Summary

- ***A cash budget is prepared by (1) estimating cash receipts, (2) estimating cash payments, and (3) calculating the cash excess or shortage.***
- ***Working capital is the difference between current assets and current liabilities. Current assets include cash, accounts receivable, and other liquid assets. Current liabilities are amounts to be paid in the next year.***
- ***A manufacturing company will usually have three types of inventory items: direct materials, work in process, and finished goods. Inventory control methods can include a system of documentation, separate responsibilities, a regular physical inventory, and use of technology.***
- ***Common inventory costs include storage and tracking costs, insurance and taxes, and losses due to spoilage, damage, and theft. Production companies use a breakeven analysis to find the profit of products.***
- ***Direct compensation includes wages, salary, commission, overtime, and bonuses. Indirect compensation includes payments made by an employer on behalf of an employee for items such as insurance, pension funds, and educational expenses.***
- ***Common payroll deductions include federal, state, and city income tax; Social Security and Medicare taxes; and voluntary deductions for items such as health or life insurance, savings, deposits to retirement funds, charitable donations, and union dues.***
- ***Credit is granted to customers on the basis of (1) capacity, the ability of the borrower to repay money owed; (2) collateral, a specific asset used to secure a loan; and (3) the past credit history of the borrower. Credit terms are the conditions under which credit is extended by a lender to a borrower. These terms clearly communicate if the buyer or the seller will pay delivery changes, penalties or interest for late payments, and discounts for early payments.***
- ***Credit managers use aging of accounts receivable to manage past due accounts. Debt collection procedures are used to reduce the uncollectible accounts of a company.***