

# 40 Lecture - MGT201

## Important Subjective

- 1. What is the difference between cash management and working capital financing?**  
Answer: Cash management involves managing a company's cash inflows and outflows to optimize cash flow, while working capital financing involves obtaining financing to support short-term operational needs.
- 2. What are the primary sources of short-term financing for working capital?**  
Answer: The primary sources of short-term financing for working capital are trade credit, bank loans, lines of credit, and factoring.
- 3. Why is cash flow forecasting important in cash management?**  
Answer: Cash flow forecasting helps businesses anticipate future cash inflows and outflows, allowing them to make informed decisions about cash management and working capital financing.
- 4. What is the purpose of a cash budget?**  
Answer: A cash budget is a tool used in cash management to project cash inflows and outflows for a specified period, allowing businesses to plan their cash needs and avoid cash shortages.
- 5. What is the cash conversion cycle, and why is it important in working capital management?**  
Answer: The cash conversion cycle is the time it takes for a company to convert its inventory and accounts receivable into cash. It is an important metric in working capital management as it helps businesses determine how long it takes to generate cash from their assets.
- 6. How does a line of credit work in working capital financing?**  
Answer: A line of credit is a pre-approved loan amount that a business can draw from as needed to support short-term cash flow needs. Interest is only charged on the amount of credit used, making it a flexible and cost-effective option for working capital financing.
- 7. What are some common techniques used in cash management to optimize cash flow?**  
Answer: Some common techniques used in cash management include accelerating collections of accounts receivable, negotiating favorable payment terms with suppliers, and reducing inventory levels.
- 8. What is the role of factoring in working capital financing?**  
Answer: Factoring is a financing technique where a business sells its accounts receivable to a factoring company at a discount in exchange for immediate cash. It can be a useful option for businesses with slow-paying customers or limited access to traditional financing.
- 9. What is the difference between operating expenses and capital expenses?**  
Answer: Operating expenses are expenses related to a company's day-to-day operations, while capital expenses are expenses related to long-term investments in assets such as property, plant, and equipment.

10. **How can businesses use financial ratio analysis to improve cash management and working capital financing?**

Answer: Financial ratio analysis can help businesses identify areas where they can improve cash management and working capital financing, such as by improving inventory turnover or reducing accounts payable days.