

Working capital management

Introduction

In a perfect world, there would be no necessity for current assets and liabilities because there would be no uncertainty, no transaction costs, information search costs, scheduling costs, or production and technology constraints. The unit cost of production would not vary with the quantity produced. Borrowing and lending rates shall be same. Capital, labour, and product market shall be perfectly competitive and would reflect all available information, thus in such an environment, there would be no advantage for investing in short term assets.

However the world we live is not perfect. It is characterized by considerable amount of uncertainty regarding the demand, market price, quality and availability of own products and those of suppliers. There are transaction costs for purchasing or selling goods or securities. Information is costly to obtain and is not equally distributed. there are spreads between the borrowings and lending rates for investments and financings of equal risks. Similarly each organization is faced with its own limits on the production capacity and technology it can employ there are fixed as well as variable costs associated with production goods. In other words, the markets in which real firm operated are not perfectly competitive.

These real world circumstances introduce problem's which require the necessity of maintaining working capital. For example,, an organization may be faced with an uncertainty regarding availability of sufficient quantity of crucial imputes in future at reasonable price. This may necessitate the holding of inventory., current assts. Similarly an organization my be faced with an uncertainty regarding the level of its future cash flows and insufficient amount of cash may incur substantial costs. This may necessitate the holding of reserve of short term marketable securities, again a short term capital asset. In corporate financial management, the term "Working capital management" (net) represents the excess of current assets over current liabilities.

1.2 WORKING CAPITAL

In simple words working capital is the excess of current Assets over current liabilities. Working capital has ordinarily been defined as the excess of current assets over current liabilities. Working capital is the heart of the business. If it is weak business cannot proper and survives. Sit is therefore said the fate of large scale investment in fixed assets is often determined by

a relatively small amount of current assets. As the working capital is important to the company is important to keep adequate working capital with the company. Cash is the lifeline of company. If this lifeline deteriorates so does the companies ability to fund operation, reinvest do meet capital requitrents and payment. Understanding Company's cash flow health is essential to making investment decision. A good way to judge a company's cash flow prospects is to look at its working capital management. The company must have adequate working capital as much as needed by the company. It should neither be excessive or nor inadequate. Excessive working capital cuisses for idle funds laying with the firm without earning any profit, where as inadequate working capital shows the company doesn't have sufficient funds for financing its daily needs working capital management involves study of the relationship between firm's current assets and current liabilities. The goal of working capital management is to ensure that a firm is able to continue its operation. And that is has sufficient ability to satisfy both maturing short term debt and upcoming operational expenses. The better a company managers its working capital, the less the company needs to borrow. Even companies with cash surpluses need to manage working capital to ensure the those surpluses are invested in ways that will generate suitable returns for investors.

The primary objective of working capital management is to ensure that sufficient cash is available to ”

Meet day to day cash flow needs.

Pay wages and salaries when they fall due

Pay creditors to ensure continued supplies of goods and services.

Pay government taxation and provider of capital – dividends and

Ensure the long term survival of the business entity.

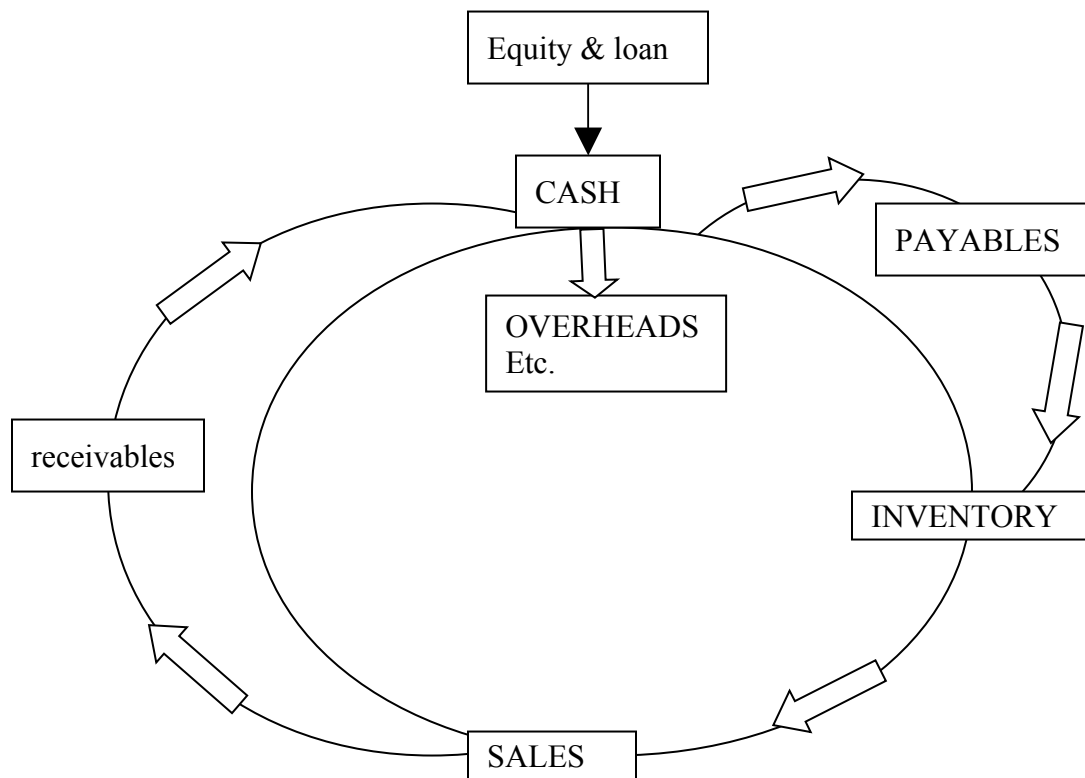
1.3 need for working capital

the prime objective of the company is to obtain maximum profit thought the business. The amount of profit largely depends upon the magnitude of sales. However the sale does not convert into cash instantaneously. There is always a time gap between sale of goods and receipt of cash. The time gap between the sales and their actual realization in cash is technically termed as operating cycle. Additional capital required to have uninterrupted business operations, and the amount will be locked up in the current assets. Regular availability of adequate working capital is inevitable for sustained biasness orpations.if the proper fund is not provided for the purpose, the business

operations will be effected. And hence this part of finance to be managed well.

1.4 working capital cycle.

Graph



Each component of working capital (namely inventory, receivables and payables) has two dimensions TIME and MONEY . when the comes to managing working capital TIME IS MONEY . if you can get money to move fester around the cycle (collect monies due from debtors more quickly) or reduce the amount of money tied up (e., reduce inventory level relative to sales). The business will generate more cash or it will need to borrow less money to fund working capital. As a consequences, you could reduce the cost of bank interest or you will have additional freeee4 money available to support addition sales growth or investment. Similarly, if you can negotiate improved terms with suppliers e.g. get longer credit or an increased credit limit, you festively create freed finance to help fund future sales

\ a perusal of operational cycle reveals that the cash invested in operations are recycled back in to cash. However it takes time to reconvert the cash. Cash flows in cycle into around and out of a business it the business's lifeblood and every manager's primary task to help keep it flowing and to use the cash flow to generate profits. The shorter the period of operating cycle. the larger will be the turnover of the funds invested in various purposes.

1.5 Determinants of working capital

Working capital requirements of a concern depends on a number of factors, each of which should be considered carefully for determining the proper amount of working capital. It may be however be added that these factors affect differently to the different units and these keeps varying from time to time. In general, the determinants of working capital which re common to all organization's can be summarized as under:

Nature of business

Need for working capital is highly depends on what type of business, the firm in. there are trading firms, which needs to invest a lot in stocks, ills receivables, liquid cash etc. public utilities like railways, electricity, etc., need much less inventories and cash. Manufacturing concerns stands in between these two extends. Working capital requirement for manufacturing concerns depends on various factor like the products, technologies, marketing policies.

Production policies

Production policies of the organization effects working capital requirements very highly. Seasonal industries, which produces only in specific season requires more working capital . some industries which produces round the year but sale mainly done in some special seasons are also need to keep more working capital.

Size of business

Size of business is another factor to determines the need for working capital

Length of operating cycle.

Operating cycle of the firm also influence the working capital . longer the orating cycle, the higher will be the working capital requirement of the organization.

Credit policy

Companies; follows liberal credit policy needs to keep more working capital with them. Efficiency of debt collecting machinery is also relevant in this matter. Credit availability form suppliers also effects the company's working capital requirements. A company doesn't enjoy a liberal credit from its suppliers will have to keep more working capital

Business fluctuation

Cyclical changes in the economy also influancethe level of working capital. During boom period, the tendency of management is to pile up inventories of raw materials and finished goods to avail the advantage of rising proves. This creates demand for more capital. Similarly. During depression when the prices and demand for manufactured goods. Constantly reduce, the industrial and trading activities show a downward termed. Hence the demand for working capital is low.

Current asset policies.

The quantum of working capital of a company is significantly determined by its current assets. Policies. A company with conservative assets policy may operate with relatively high level of working capital than its sales volume. A company pursuing an aggressive amount assets policy operates with a relatively lower level of working capital.

Fluctuations of supply and seasonal variations

Some companies need to keep large amount of working capital due to their irregular sales and intermittent supply. Similarly companies using

bulky materials also maintain large reserves' of raw material inventories. This increase the need of working capital . some companies manufacture and sell goods only during certain seasons. Working capital requirements of such industries will be higher during certain season of such industries period.

Other factors.

Effective co ordination between production and distribution can reduce the need for working capital . transportation and communication means. If developed helps to reduce the working capital requirement/.

1.6 working capital concepts.

There are two thoughts that re currently accepted about working capital. They are

Gross working capital concept.

Net working capital concept.

Gross working capital concept

This thought says that total investment in current assets is the working capital of the company. This concepts does not consider current liabilities at all. Reasons given for the concept.

- 1) when we consider fixed capital as the amount invested in fixed assets. Then the amount invested in current assets should be considered as working capital.
- 2) current asset whatever my be the sources of acquisition, are used in activities related to day to day operations and their forms keep on changing. Therefore they should be considered as working capital.

Net working capital

it is narrow concept of working capital and according to this, current assets minus current liabilities forms working capital. The excess of current assets over current liabilities is called as working capital. This concept lays emphasis on qualitative aspect. Which indicates the liquidity position of the concern/enterprise. The reasons for the net working capital method are:

- 1) THE material thing in the long fun is the surplus of current assets over current liability

- 2) Financial health can easily be judged by with this concept particularly from the view point of creditors and investors.
- 3) Excess of current assets over current liabilities represents' the amount which is not liable to be returned and which can be relied upon to meet any contingency.
- 4) Inter company comparison of financial position may be correctly done particularly when both the companies have the same amount of current assets.

If the current assets are higher than current liability it is considered the financial position of the company is sound. If both current assets and liabilities are equal , the company has resorted to short term funds for financing the working capital and long term sources of funds have been used to finance the acquisition of fixed assets. It doesn't not indicate the financial soundness for the company. If the current assets are lesser than current liabilities there is negative working capital which indicates financial crisis.

Net working capital concept is more reasonable than the gross working capital concepts. The balance sheet of the company includes group of liabilities such as bank overdraft, creditors, bills payables, outstanding expenses etc. if it is not deduct from current assets , the concern may consider itself quite secured: while the reality is may be that the concern has very little working capital or has no working capital . there fore it is reasonable to define working capital as the excess of current assets over current liabilities.

Characteristics of Working Capital

The features of working capital distinguishing it from the fixed capital are as follows:

(1) Short term Needs:

Working capital is used to acquire current assets which get converted into cash in a short period. In this respect it differs from fixed capital which represents funds locked in long term assets. The duration of the working capital depends on the length of production process, the time that elapses in the sale and the waiting period of the cash receipt.

(2) Circular Movement:

Working capital is constantly converted into cash which again turns into working capital. This process of conversion goes on continuously. The cash is used to purchase current assets and when the goods are produced and sold out; those current assets are transformed into cash. Thus it moves in a

circular away. That is why working capital is also described as circulating capital.

(3) An Element of Permanency:

Though working capital is a short term capital, it is required always and forever. As stated before, working capital is necessary to continue the productive activity of the enterprise. Hence so long as production continues, the enterprise will constantly remain in need of working capital. The working capital that is required permanently is called permanent or regular working capital.

(4) An Element of Fluctuation:

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Working Capital Loans

Though the requirement of working capital is felt permanently, its requirement fluctuates more widely than that of fixed capital. The requirement of working capital varies directly with the level of production. It varies with the variation of the purchase and sale policy; price level and the level of demand also. The portion of working capital that changes with production, sale, price etc. is called variable working capital.

(5) Liquidity:

Working capital is more liquid than fixed capital. If need arises, working capital can be converted into cash within a short period and without much loss. A company in need of cash can get it through the conversion of its working capital by insisting on quick recovery of its bills receivable and by expediting sales of its product. It is due to this trait of working capital that the companies with a larger amount of working capital feel more secure.'

(6) Less Risky:

Funds invested in fixed assets get locked up for a long period of time and can not be recovered easily. There is also a danger of fixed assets like machinery getting obsolete due to technological innovations. Hence investment in fixed capital is comparatively more risky. As against this, investment in current assets is less risky as it is a short term investment. Working capital involves more of physical risk only, and that too is limited. Working capital involves financial or economic risk to a much less extent because the variations of product prices are less severe generally. Moreover, working capital gets converted into cash again and again; therefore, it is free from the risk arising out of technological changes.

(7) Special Accounting System not needed:

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Working Capital Loans

Since fixed capital is invested in long term assets, it becomes necessary to adopt various systems of estimating depreciation. On the other hand working capital is invested in short term assets which last for one year only. Hence it is not necessary to adopt special accounting system for them.

1.7 kinds of working capital

Working capital can be put in two categories:

- 1) fixed or permanent working capital and
- 2) fluctuating or temporary working capital

fixed or permanent working capital

the volume of investment in current assets an change over a period of time. But always there is minimum level of current assets that must be kept in order to carry on the business. This is the irreducible minimum amount needed for maintaining the operating cycle. It is the investment in current assets. Which is permanently locked up in the business, and therefore known as permanent working capital.

Variable/temporary working capital

It is the volume of working capital. Which is needed over and above the fixed working capital in order to meet the unforced market changes and contingencies. In other words any amount over and about the permanent level of working capital is variable or fluctuating working capital . this type of working capital is generally financed from short ter souse of finance such as bank credit because this amount is not permanently required and is usually paid back during off season or after the contingency.

1.8 Sources of working capital

The company can choose to finance its current assets by
Long term sources
Short term sources
A combination of them.

Long term sources of permanent working capital include equity and preference shares, retained earning, debentures and other long term debts from public deposits and financial institution. The long term working capital needs should meet through long term means of financing. Financing through long term means provides stability, reduces risk or payment. And increases

liquidity of the business concern. Various types of long term sources of working capital are summarized as follow

Issue of shares

It is the primary and most important sources of regular or permanent working capital . issuing equity shares as it does not create and burden on the income of the concern. Nor the concern is obliged to refund capital should preferably raise permanent working capital.

Retained earnings

Retain earning accumulated profits are a permanent sources of regular working capital. It is regular and cheapest. It creates not charge on future profits of the enterprises.

Issue of debentures

It crates a fixed charge on future earnings of the company. company is obliged to pay interest . management should make wise choice in procuring funds by issue of debentures.

Long term debt

Company can raise fund from accepting public deposits, debts from financial institution like banks, corporations etc. the cost is higher than the other financial tools.

Other sources sale of idle fixed assets , securities received from employees and customers are examples of other sources of finance.

Short term sources of temporary working capital

Temporary working capital is required to meet the day to day business expenditures. The variable working capital would finance from short term sources of funds. And only the period needed . it has the benefits of ,low cost and establishes closer relationships with banker.

Some sources of temporary working capital are given below;

Commercial bank

A commercial bank constitutes a significant sources for short term or temporary working capital . this will be in the form of short term loans, cash credit, and overdraft and though discounting the bills of exchanges.

Public deposits

most of the companies in recent years depends on this sources to meet their short term working capital requirements ranging fro six month to three years.

Various credits

trade credit, business credit papers and customer credit are other sources of short term working capital. Credit from suppliers, advances from customers, bills of exchanges, promissnotes, etc helps to raise temporary working capital

Reserves and other funds

various funds of the company like depreciation fund. Provision for tax and other provisions kept with the company can be used as temporary working capital.

The company should meet its working capital needs through both long term and short term funds. It will be appropriate to meet at least 2/3 of the permanent working capital equipments form long term sources, whereas the variables working capital should be financed from short term sources. The working capital financing mix should be designed in such a way that the overall cost of working capital is the lowest, and the funds are available on time and for the period they are really required.

SOURCES OF ADDITIONAL WORKING CAPITAL

Sources of additional working capital include the following

Existing cash reserves
Profits(when you secure it as cash)
payables(credit from suppliers)
new equity or loans from shareholder
bank overdrafts line of credit
long term loans

if you have insufficient working capital and try to increase sales, you can easily over stretch the financial resources of the business. This is called overtrading. Early warning signs include

pressure on existing cash
exceptional cash generating activities. offering high discounts for clear cash payment
bank overdraft exceeds authorized limit
seeking greater overdrafts or lines of credit

part paying suppliers or their creditor.
Management pre-occupation with surviving rather than managing.

1.9 adequate working capital

As I stated about keeping adequate working capital is the mantras towards the success of financial management. The term adequate working capital refers to the amount of working capital to be kept with the organization to meet its daily operations. Large investment in fixed assets is not sufficient to run a business successfully. Adequate working capital is equally important. Without working capital fixed assets are like a gun, which cannot shoot, as there are no cartridges.

It is said that “inadequate working capital is a disaster: whereas redundant working capital is a criminal waste.” It is clear that the company can't invest all its funds in current assets to increase working capital. At the same time it requires to keep sufficient funds with it. So a proper leverage between both ends is needed to assure proper running of the business. It needs to keep adequate working capital with it. Neither less nor more than needed.

1.9 (a) advantages of adequate working capital

Adequate working capital provides certain benefits to the company they are:

1 increase in debt capacity and goodwill

Adequate working capital represents the financial soundness of the company. If one company is financially sound it would be able to pay its creditors timely and properly. It will increase company's goodwill. It creates confidence among investors and creditors. Thus a firm with adequate working capital can raise requisite funds from market, borrow short term credit from banks, and purchase inventories of raw material etc., for the smooth operations of its business.

Increase in production efficiency

With adequate working capital the firm can smoothly carry out research and development activities and thus add to its production efficiency.

Exploitation of favorable opportunities

In the presence of adequate working capital, a company can avail the benefits of favorable opportunities. Adequate working capital will help the company to have bulk purchases, seasonal storage of raw material etc., which would reduce the cost of production, thus adds to its profit.

Meeting contingencies adverse changes:

A company can easily face certain business and economic crises a company having adequate working capital can successfully meet contingencies such as business oscillations, financial crisis arising from heavy losses etc.,

Available cash discount

Maintenance of adequate working capital enables a company to avail the advantage of cash discount by making cash payment for to the suppliers of raw materials and merchandise. Obviously it will reduce the cost of production and increase the profit of the company.

Solvency and efficiency fixed assets.

It helps to maintain the solvency of the company. So that payments could be made in time as and when they fall due. Like wise, adequate working capital also increases the efficiency for fixed assets insofar as their proper maintenance depends upon the availability of funds.

Attractive dividend to shareholders

It enables the company to offer attractive dividend to the shareholders so that sense of security and confidence will increase among them. It also increases the market values of its shares.

1.9 (b)

Dangers of inadequate working capital

Having inadequate working capital leads to so many dangers as it doesn't fulfill its purpose. Some are given below:

Loss of goodwill and creditworthiness

As the firm fails to on or its current liabilities it loses its goodwill and creditworthiness among its creditors. Consequently, the firm finds it difficult to procure the requisite funds for its business operations on easy terms, which ultimately results in reduced profitability as well as production interruption.

Firm can't make use of favorable opportunities

The firm fails to undertake the profitable projects, which not only prevent the firm from availing the benefits of favorable opportunities but also stagnate its growth.

Adverse effects of credit opportunities

The firm also fails to avail the attractive credit opportunities but also stagnate its growth

Operational inefficiencies

It leads the company to operating inefficiencies, as day to day commitments cannot be met.

Effects on financial capacity

Inadequacy of working capital also weakens the shock absorbing capacity of the firm because it cannot meet the contingencies arising from business oscillations, financial losses, due to shortage of working capital.

Non achievement of profit target

The firm cannot implement operational plans due to unavailability of funds. Which will lead to non achievement of profit margin.

1.10 Dangers of redundant working capital

As the inadequate working capital is dangerous to the firm, redundant working capital also brings hazardous conditions to the company. Let us discuss the dangers of redundant working capital to the company.

Low rate of return on capital

Excessive or redundant working capital implies the presence of idle funds that earn no profit to the firm. So it cannot earn a proper rate of return on its total investments, whereas profits are distributed on its total investment, whereas profits are distributed on the whole of its capital.

Decline in capital and efficiency

Since the rate of return on capital is low the company tempts to make some adjustment to inflate profit to increase the dividend. Some times these unearned dividend paid out of the company's capital to keep up the show of prosperity by window dressing of accounts. Certain provision, such as provision for deprecation , repairs and renewals are into made. This leads to decline in operating efficiency of the firm.

Loss of goodwill and confidence.

Lower rate of return leads to lower dividend available to share holder. This leads to down fall in market value of the company's share and markets the shareholder lose their confident in company.

Evils of over capitalization

Excessive working capital is often responsible for giving berth to the situation of overcapitalization in the company with all its evils. Over capitalizations is not only disastrous to the smooth survival of the company but also interests of those associated with the company.

Destruction of turnover ratio

It destructs the control over turnover ratio. Which is commonly used in the conduct of an efficient business.

It is evident form the foregoing discussion that a company must have adequate working capital pursuant to its requirements. It should neither be excessive not inadequate. Both situation are dangerous. While inadequate working capital adversely affects the business operations and profitability . excessive working capital remains idle and earns no profits for the company. So company must assure its working capital is adequate for its operations.

1.11 Blueprint for a good working capital management policy

General action

Set planning standards for stock days. Debtor days and creditors days.

Having set planning standards (as above) KEEP TO THEM. Impress on staff that these targets are just important operating budgets and standards cost.

Instill an understanding amongst the staff that working capital management produces profits.

Action on stocks

Keep stock levels as low as possible, consistent with not running out of stock and not ordering stock in uneconomically small quantities. “just in time” stock management is fine, as long as it is “just in time” and never fails to deliver on time.

Consider keeping stock in suppliers warehouses drawing on its as needed and saving warehousing cost.

Action on debtors /customers

Assess ALL significant new customers for their ability to pay. Take references, examine account , and ask around. Try not to take on new customers who would be poor payers.

Re assess ALL significant customers periodically. Stop supplying existing customers who are poor payers, you may lose sales, but you are after QUALITY of business rather than QUANTITY of business. Sometimes poor paying customers suddenly (and magically!!) find cash to settle invoices if their supplies are being cut off. If customers can't pay / won't pay let your competitor have them. Give your competitor a few more problem.

Consider factoring sales invoices the extra cost may be worth it in terms of quick payment of sales revenue, less debtor administration and more time to carry out your business (rather than spend time chasing debts)

Consider offering discounts for prompt settlement of invoices, but only if the discounts are lower than the costs of borrowing the money owed from other sources.

Action on creditors

Do NOT pay invoices too early take advantage of credit offered by suppliers it's free!!

Only pay early if the supplier is offering a discount. Even then, consider this to be an investment. Will you get a better return by using working capital to settle the invoice and take the discount than by investing the working capital in some other way?

Establish a register of creditors to ensure that creditors are paid on the correct date not earlier and not later.

1.12

THE CONCEPT OF ZERO WORKING CAPITAL

In today's world of intense global competition, working capital management is receiving increasing attention from managers striving for peak efficiency. The goal of many leading companies today, is *zero working capital*. Proponent of the *zero working capital* concept claims that a movement toward this goal not only generates cash but also speeds up production and helps business make more timely deliveries and operate more efficiently. The concept has its own definition of working capital : $\text{inventories} + \text{receivables} - \text{payables}$. The rationale here is (i) that inventories and receivables are the keys to making sales, but (ii) that inventories can be financed by suppliers through account payables.

Companies use about 20% of working capital for each sales. So, on average, working capital is turned over five times per year. Reducing working capital and thus increasing turnover has two major financial benefits. First every money freed up by reducing inventories or receivables, by increasing payables, results in a one time contribution to cash flow. Second, a movement toward zero working capital permanently raises a company's earnings.

The most important factor in moving toward zero working capital is increased speed. If the production process is fast enough, companies can produce items as they are ordered rather than having to forecast demand

and build up large inventories that are managed by bureaucracies. The best companies delivery requirements. This system is known as demand flow or demand based management. And it builds on the just in time method of inventory control.

Clearly it is not possible for most firm to achieve zero working capital and infinitely efficient production. Still, a focus on minimizing receivables and inventories while maximizing payables will help a firm lower its investment in working capital and achieve financial and production economies.

ESTIMATION OF WORKING CAPITAL MANGEMENT

As discussed above a number of factors are responsible for determining the amount of working capital required by a firm. Let us now discuss the various methods/ techniques used in assessment of firm's working capital requirements. These methods are.

1) estimation of components of working capital method.

This method is based on the basic definition of working capitalizes, excess of current assets over the current liabilities. In other words, the amount of different constituent of the working capital such as debtors, cash inventories, creditors etc are estimated separately and the total amount of working capital requirement is worked out accordingly.

(ii) percent sales method

This is the most simple and widely used method in combination with other scientific methods. According to this method a ratio is determined for estimating the future working capital requirement. This is generally based on the past experience of management as the ratio varies from industry to industry. For example if the past experience shows that the amount of working capital has been 20% of sales and projected amount of sales for the next year is Rs 10 lakhs, the required amount of working capital shall be Rs Two lakh.

As seen from above the above method is merely an estimation based on past experience. Therefore a lot depends on the efficiency of decision maker, which may not be correct in all circumstances. Moreover the basic assumptions regarding linear relationship between sales and the working capital may not hold well in all the cases. Therefore this method is not dependable and not universally acceptable. At best, this method gives a rough idea about the working capital.

(iii) operating cycle approach

The need of working capital arises mainly because of the gap between the production of goods and their actual realization after sales. This gap is technically referred as the "operating cycle" or the "cash cycle" of the business. If it were possible to complete the entire job instantaneously, there would be no need for current asset (working capital). But since it is not possible, every business organization is forced to have current asset and hence operating cycle. It may be divided into four stages.

1. raw materials and stores storage space.
2. work in process stage.

3. finished goods inventory stage.
4. debtor's collection stage,

duration of operating cycle

the duration of the operating cycle is equal to sum of the duration of these stages less the credit period allowed by the suppliers of the firm. In symbol

$$OC = R + W + F + D - C$$

WHERE

OC= Duration of the Operating Cycle

R= Raw materials and storage space periods

W= work in process periods.

F= finished goods storage periods

D= debtor collection period

C= Creditors collection period.

The component of the operating cycles has already been calculated in “ratio Analysis” which is as follow.

$$R = \frac{\text{average stock of raw material}}{\text{Average raw material consumption per day}}$$

$$S = \frac{\text{Average stock of stores}}{\text{Average stores consumption per day}}$$

$$W = \frac{\text{average work in process inventory}}{\text{Average cost of production per day}}$$

$$D = \frac{\text{average book debts}}{\text{Average credit sales per day}}$$

$$C = \frac{\text{average trade credit}}{\text{Average trade credit purchase per day}}$$