

Working capital strategies for microsoft



Working Capital Strategies By Forecasted If Microsoft forecasted revenue increase by 20 percent's for the upcoming year, several parts of the annual report will be affected by the 20% increase forecast. First of all, the income statements will alter their revenues from 16, 195 million dollars to 19, 434 million dollars. Revenue is not the only thing that changes since there are other expenses that need to be changed.

For example in the income statement, the operating expenses will not have an adjustment, and that includes; research and development, sales and marketing, and general and administrative these accounts will stay constant because only the revenues increase by 20 percent. However, if revenue increases 20 percent, the cost of revenues also increases by 20 percent due to the fact that cost of revenue is the cost to make the revenue. The cost of revenue is from \$3, 139 million dollars to \$3, 767 million dollars.

The total operating expenses will increase \$628 million dollars, but in the end, the net income will increase also because revenue is higher than what can be covered to the extra cost of revenue. Working Capital The working capital indicates the liquidity of the company and how fast it can convert assets into cash in a company. In order to figure out how much working capital a company has, it is current assets over current liabilities. Microsoft's current assets are \$74, 918 million dollars, and the current liabilities are \$28, 774 million dollars.

In order to successfully manage working capital, the firm has to set the policies of managing the current assets, short term financing. There are four part of management of working capital these are; cash management,

inventory management, debtor management, and short term financing. Cash management is to identify the cash balance which allows reducing cash holding cost but still able to meet day to day expenses. Inventory management is to understanding the level of inventory which allows uninterrupted product but reduces the raw materials cost.

If Microsoft knows how much their product sales are per month, the firm will be able to estimate how much raw materials are needed and continue the production. Therefore, Microsoft will either continue working in progress or over production because having too much finished goods is not enough goods. Debtors' management is to find the appropriate credit policy, and will have an impact on cash flows and cash conversion cycle will be used to offset the increase in revenue. If Microsoft forecasted revenues increased by 20 percent, it might happen because the increase of customers because of discounts.

The last one is Short-term financing, it is to identify the appropriate source of financing, sometime it is good to have credit granted by the supplier, but it may also necessary to use bank loan, or to convert debtors to cash from selling the firms account receivable to get quick cash. Effect on Revenue An increase in revenue on a firm's working capital can be a result of good management of a corporation's strategic plan for measuring its assets and liabilities. Working capital represents a portion of a company's investments that is used in the everyday business activities.

For example managing the current assets represents about a 1/3 of the activities of the company and managing its liabilities represents ? of the

companies' activities. If Management adequately balances these two major components of the balance sheet this will balance the profits and reduce risks a company takes and all of this affects the Revenue. Example of the asset accounts are Inventory, Accounts Receivable, Cash and Marketable Securities, these should be managed adequately to increase revenue.

Example of the Current Liabilities is; accounts payable, accruals, and Notes Payable these should also be managed adequately to increase revenue. If a firm manages its cash or investments the profitability of the company will be balanced because the relationship between what it costs to operate the business and what it owns equates to revenue and how productive a company is. If there is more debt ratio for a company than assets the company will be at risk or closer to insolvency which is to be unable to meet its debt obligations.

Risk comes with a price, a corporation measures risk as well to see the result of trade-off for a company the higher a risk the higher the expected return because of the risk it takes. A firm increases its profits by increasing their revenues and decreasing costs. There are some strategies that a company can use to increase revenue and working capital. One of the strategies that management can use is to manage their cash conversion cycle.

This cycle impacts how long a company will be able to convert their account receivable and inventory into cash. The sooner a company can convert their accounts receivables and inventory into cash the more liquidity a company has thus more Revenue. Just as cash conversion collecting receivables from their sales as quickly as possible by shortening their collections period the

more cash a company will have this increases revenue. On the other hand being able to lengthen the accounts payable is a good way to manage the cash conversion cycle.

Managing Accounts Receivable takes a lot of analysis for example Management measures the Average collection period of accounts receivable. This measurement is taking the 365 days over the average collection period the longer the period means that the company is taking too long to collect its receivables which is not good for a companies' turnover ratio. Lessons Learned A company must balance their liabilities such as how they fund their operations, their assets and their other accounts. Companies fund their company by borrowing from banks.

The company's ability to borrow depends on their working capital. The company can use some of their accounts as collateral such as accruals from salaries that have not yet been paid are un-secured sources of short term loans. Accounts receivable and inventory are collateral sources for funding. A company should carefully analyze the terms of the loans pay the least possible interest and take advantage of early payment and cash discounts to fund their loans at the lowest possible cost to maximize profits.

It is apparent that Microsoft has established good practices of their accounts by lessons learned. Good points for managing working capital and to establish for future lessons learned are the following: Review accounts payable and audit for assuring good credit and to obtain discounts on rates. Understand all the effects of making the longest payable time without having

to give up credit and cash discounts, in addition, utilize accruals from wages and taxes.

Review interest rates and assure that it is getting the lowest possible cost to maximize market value. Use Inventory and Accounts receivable as collateral however, assuring that it is managed wisely to make profit grow. In summary working capital and managing requires a lot of research analysis and review of all of the balance sheet and income statement accounts. It is important that the company maintains a balance of these accounts to maximize their revenue and market value. References: Principles of Managerial Finance Chapter 14, 15.