

Working Capital Management — Workbook

This workbook turns the course into hands-on work on your own business's cash. Pull your last 12 months of figures, your revenue, cost of goods sold, and the balances for accounts receivable, inventory, and accounts payable, and have your accounting system (QuickBooks, Xero, FreshBooks, or similar) open so you can run an aging report and a few quick exports. Work through each section as you progress: measure the cash conversion cycle, build a receivables and collections system, tighten inventory, and master payables, forecasting, and financing. The templates are built to be filled with your own numbers and reused every week and every reporting period.

Working Capital and the Cash Conversion Cycle

Measure your cash conversion cycle, translate it into dollars of trapped cash, and judge your liquidity against your own history and your industry.

Worksheet: Calculate Your Cash Conversion Cycle

Pull the figures for your most recent full year and compute each component, then combine them. Use average balances (opening plus closing, divided by two) where you can. This is the baseline you will improve for the rest of the course.

Annual revenue (dollars)

Annual cost of goods sold / COGS (dollars)

Average accounts receivable (dollars)

Average inventory (dollars)

Average accounts payable (dollars)

Days inventory outstanding (DIO) = average inventory / COGS x 365

Days sales outstanding (DSO) = average receivables / revenue x 365

Days payable outstanding (DPO) = average payables / COGS x 365

Cash conversion cycle (CCC) = DIO + DSO - DPO (days)

Which single lever (inventory, receivables, or payables) looks furthest from where it should be?

Exercise: Turn Days Into Dollars

Convert your cash conversion cycle into the actual cash locked inside your business, then quantify the prize from improving it. This is what makes the cycle worth managing.

- Divide annual COGS by 365 to get your approximate cash cost per day of operating cycle. What is it?
- Multiply that daily figure by your cash conversion cycle in days. How many dollars are permanently trapped in your cycle right now?
- Pick a realistic target: cut the cycle by 15 days. How much cash would that release, with no new sales?
- What would you do with that freed cash, repay a line of credit, fund inventory for growth, or build a reserve?

Worksheet: Liquidity Snapshot and Benchmark

Compute your core liquidity ratios from your latest balance sheet and record each next to its rough benchmark and your industry figure (pull industry norms from RMA Annual Statement Studies, IBISWorld, or your bank). Flag whether you are too thin, healthy, or bloated.

Current assets / current liabilities (dollars)

Current ratio = current assets / current liabilities — benchmark roughly 1.2 to 2.0

Quick ratio = (current assets minus inventory) / current liabilities — benchmark near 1.0

Working capital = current assets minus current liabilities (dollars)

My industry's typical current ratio (from benchmark source)

My industry's typical cash conversion cycle or DSO (from benchmark source)

Verdict on liquidity: dangerously thin / healthy / bloated with idle cash

One-line read: which way is my working capital drifting versus last year?

Checklist: Working Capital Fundamentals Standards

- I track the cash conversion cycle, not just profit, as a measure of liquidity
- I can translate every day of the cycle into a dollar amount of trapped cash
- I recompute DIO, DSO, and DPO at least monthly to catch drift early
- I benchmark my ratios against my own history and my industry, not in a vacuum
- I optimize liquidity rather than maximize it, avoiding both a crunch and idle cash
- I understand that faster growth consumes more working capital, not less

Accounts Receivable: Getting Paid Faster

Design credit policy and terms, stand up a disciplined collections cadence, and track DSO and aging so receivables stop trapping cash.

Worksheet: Credit Policy and Terms Design

Define the rules that govern the credit you extend, so credit decisions stop being made emotionally in the moment. Fill each field as a deliberate policy you will apply to every customer.

How I screen new credit customers (credit check provider, trade references, opening limit)

Default payment terms for standard customers (e.g. Net 15 / Net 30)

Deposit or progress-billing rule for large or custom jobs (e.g. 30% deposit)

Early-payment discount offered, if any (e.g. 2/10 net 30) and why it is worth ~37% annualized

Late-payment fee stated on invoices and contracts (e.g. 1.5% per month)

Payment methods accepted to reduce friction (card, ACH, online link)

Credit limit policy: starting limit for new accounts and rule for raising it

Trigger to pause credit / hold shipments (e.g. account over 60 days past due)

Exercise: Run Your Aging Report

Pull the accounts receivable aging report from your accounting software and analyze where your cash is stuck. This is your collections to-do list, ranked by risk.

- What is the total dollar value in each bucket: current, 1-30, 31-60, 61-90, and 90-plus days overdue?
 - What percentage of total receivables is past due, and what percentage sits in the 90-plus bucket?
 - List your five largest overdue invoices by dollar value, with customer name and days overdue.
 - For each of those five, what is the next collection action and the date you will take it?
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Worksheet: Collections Cadence and DSO Tracker

Define your escalation cadence so no invoice slips through, and set up the DSO measurement you will watch monthly. Fill the cadence and the current DSO numbers.

Action at 3 days before due (e.g. friendly reminder email)

Action at 1-7 days overdue (e.g. polite past-due email with payment link)

Action at 14 days overdue (e.g. firmer email plus phone call)

Action at 30 days overdue (e.g. formal notice citing late fee)

Action at 60-plus days overdue (e.g. hold credit, final demand, collections / small claims)

Current DSO = average receivables / revenue x 365 (days)

My stated terms (days) and the gap between DSO and terms

Target DSO and the cash that closing the gap would release

Checklist: Receivables System Standards

- I screen new credit customers before extending terms (the Five Cs)
- I invoice immediately on completion, with a clear due date and payment link
- I follow a defined, escalating collections cadence on every overdue account
- I automate invoicing and reminders through my accounting or AR software
- I track DSO monthly and compare it to my stated payment terms
- I investigate disputes immediately and hold credit on seriously overdue accounts

Inventory: Holding Less, Selling More

Price the true cost of holding stock, prioritize with ABC analysis, and set order quantities and reorder points that free trapped cash without causing stockouts.

Exercise: Cost Out Your Inventory

Treat inventory as frozen cash and put a real number on what it costs to hold. Use your own inventory value and estimate each carrying-cost component.

- What is your average inventory value, and what is your inventory turnover (COGS / average inventory)?
- What is your days inventory outstanding (365 / turnover), and how does it compare to peers in your sector?
- Estimate your annual carrying cost at 20 to 30 percent of inventory value. In dollars, what does your stock cost you to hold each year?
- Which items or categories are slow movers or dead stock, and how much cash is frozen in them?

Worksheet: ABC Analysis of Your Stock

Rank your items by annual usage value (unit cost times annual units) and classify them so you focus control where the cash and risk live. Export your item list and fill the summary.

Total number of SKUs / items carried

Class A items: count, and approx percent of total inventory value (target tight control)

Class B items: count, and approx percent of total inventory value (moderate control)

Class C items: count, and approx percent of total inventory value (loose, bulk control)

Review/count frequency for A items (e.g. weekly cycle counts)

Review/count frequency for B and C items

Top 5 A items by value, and the safety-stock level set for each

Action: which A items are overstocked and could be trimmed to release cash?

Worksheet: EOQ and Reorder Point Calculator

Work the order-sizing math for one or two key A items so reordering is driven by cost, not habit. Repeat for each important item.

Item name

Annual demand in units

Cost to place one order (dollars)

Annual carrying cost per unit (dollars)

Economic order quantity (EOQ) = square root of $(2 \times \text{demand} \times \text{order cost} / \text{carrying cost per unit})$

Average daily usage (units)

Supplier lead time (days) and safety stock (units)

Reorder point = $(\text{daily usage} \times \text{lead time}) + \text{safety stock (units)}$

Checklist: Inventory Control Standards

- I treat inventory as frozen cash and know my annual carrying cost percentage
- I track inventory turnover and DIO, and benchmark them against my industry
- I apply ABC analysis so control effort concentrates on high-value A items
- I set EOQ-based order quantities and reorder points on my key items
- I hold safety stock sized to demand variability and supplier lead time
- I actively identify and clear slow movers and dead stock that trap cash

Payables, Forecasting, and Funding Growth

Use payables as a cash lever without burning suppliers, build a rolling 13-week cash forecast, and match short-term financing to the gap while running the whole system in balance.

Exercise: Payables Strategy and Discount Decisions

Review your supplier terms and decide, supplier by supplier, whether to stretch payment or take an early-payment discount. Use the annualized math, not gut feel.

- List your top suppliers, their current terms, and your average actual DPO with each. Are you paying inside terms?
- Which suppliers might extend standard terms (e.g. Net 30 to Net 45 or 60) if you simply asked or committed to volume?

- For any supplier offering a discount like 2/10 net 30, what is the annualized value (~37%) versus your cost of capital? Take it or skip it?
- Are you ever silently paying late and risking the relationship? Where should you correct that?

Worksheet: Build Your 13-Week Cash Flow Forecast

Lay out the next thirteen weeks of cash in and cash out by realistic timing, not accrual dates. Fill the structure for week 1, then extend the same rows across all thirteen columns in the template.
Minimum safe cash balance I must never drop below (dollars)

Opening cash balance, week 1 (dollars)

Expected receipts: customer collections timed to real pay dates (dollars)

Expected receipts: other cash in (loans, deposits, refunds)

Disbursements: payroll, on its due dates (dollars)

Disbursements: supplier payments, rent, loan repayments, taxes (dollars)

Closing cash balance, week 1 = opening + receipts - disbursements

Which week, if any, is projected to dip below the minimum safe balance, and the action to fix it?

Worksheet: Short-Term Financing Fit

Match the right financing tool to your working-capital gap and compare costs, so you bridge timing gaps cheaply and never fund operations on the wrong instrument.

Size and timing of my typical or seasonal working-capital gap (dollars / weeks)

Line of credit: limit available, interest rate, and current drawn balance

Invoice factoring/financing: would it help (slow-paying receivables)? Estimated fee/discount rate

Inventory financing: relevant for seasonal stock build? Terms

Trade credit: which suppliers could extend terms as cheapest financing?

SBA / bank working-capital loan options explored (e.g. SBA 7(a), CAPLines)

Cheapest viable option for my next gap, by annualized cost

Rule I will follow: match short-term financing to short-term needs, long-term loans to long-term assets

Checklist: Payables, Forecasting, and Financing Standards

- I take the full agreed payment term but never silently pay late
- I negotiate longer standard terms with reliable suppliers up front
- I take early-payment discounts when their annualized return beats my cost of capital
- I maintain a rolling 13-week cash flow forecast and compare forecast to actual weekly
- I match short-term financing to the gap and reserve long-term loans for long-term assets
- I run receivables, inventory, payables, and forecasting as one balanced system

Your Action Plan

1. Pull your last 12 months of figures and calculate your current cash conversion cycle from DIO, DSO, and DPO.
2. Translate the cycle into dollars of trapped cash and set a target to cut it by at least 15 days.
3. Write a one-page credit policy: how you screen customers, your default terms, deposits, discounts, and late fees.
4. Run your accounts receivable aging report, list your largest overdue invoices, and assign a next action and date to each.
5. Set up an escalating collections cadence and automate invoicing and reminders in your accounting software.
6. Run an ABC analysis of your inventory and concentrate counting and forecasting effort on the high-value A items.
7. Calculate EOQ and reorder points for your key A items and set safety stock from demand variability and lead time.
8. Review supplier terms, negotiate longer standard terms where possible, and decide which early-payment discounts to take.
9. Build a rolling 13-week cash flow forecast and identify any week that dips below your minimum safe cash balance.
10. Line up a business line of credit or other short-term financing matched to your typical working-capital gap.
11. Set a recurring monthly review of the cash conversion cycle, the liquidity ratios, and the aging report.
12. Re-measure the cash conversion cycle after one quarter and quantify the cash you have freed.

