



Financial Management Association

FMA

Office: – 401c
Alter Hall
Temple University
215-204-6673

Date : 2/23/2009

Volume 13: Issue 3

<http://www.templefma.com>

Faculty Advisor: Insights



Easy Money - Working Capital Management

Effective Working Capital management can release significant amounts of cash that can be used elsewhere in a company. And it's easy to find. Fixed depreciable assets are significantly larger than Net Working Capital at most companies, are more "exciting", and usually represent the largest single group of investments funded by lenders and equity investors. Fixed assets often define what a company does for a living. Consequently their management gets a lot of attention.

In contrast, working capital is often overlooked by corporate executives, including financial managers.

(Contd. on page 3) R. Stephen Kamp kamp@temple.edu

Upcoming Events...

February 23rd, 2009 - FMA Member Meeting- Pricewaterhouse Coopers, Guest Speaker Channda Dunbar

March 2nd, 2009 – FMA Member Meeting- JP Morgan Chase, Guest Speaker Yuri Kalif

March 8-15, 2009 – **SPRING BREAK!!!**

March 16th, 2009 – FMA Member Meeting- Toastmasters, Guest Speaker Alli Wass, President

Special Visit from Penske Trucking and Walt Pavlo

On February 9, 2009, Becky Nester, VP of Financial Planning and Analysis, and Frank Cocuzza, CFO from Penske Truck Leasing were the guest speakers at the weekly FMA meeting. They discussed the financial division of Penske Truck Leasing as well as information on entry level financial positions and the company's training program. Ms. Nester also discussed how finance at Penske has a role in various company activities. In addition, Walt Pavlo, founder of Etika, LLC and author of Stolen Without a Gun came and spoke to FMA members on February 16, 2009. He spoke about his embezzlement of \$6 million from MCI, causing the fall of WorldCom. At last, Pavlo explained how future finance professionals can ensure that they never get wrapped up in a corporate scandal.

Delaware Investments Trip Coming Soon!

Hello FMA members,

During the month of March, FMA will be taking a trip to Delaware Investments. There is great networking opportunity, so please use this as your advantage. More information will be available at a later date and will be given during our weekly meetings.

For more information on FMA upcoming events, feel free to check out our website.

Thanks!

President's Corner

I would like to thank everyone who came out to the meeting this past Monday. We had a great opportunity to hear the story of Walt Pavlo. Walt gave us valuable insights into the corruption that was consuming corporate America during the mid to late 1990's. Having heard his story, I hope that all of you have a better understanding of the importance of integrity and business ethics; business in America would not be the same if all individuals lacked these qualities. Furthermore, FMA held our first social this past Thursday, February 19th. I was very happy to see a solid turn out; in the future we will be holding socials approximately every 3-4 weeks. All of you should try to attend the socials. The primary goal of this organization is to promote networking; the greater the participation, the greater your network of peers gets.

Ariel Maidansky, President

Congress Gives Stimulus Bill Its Blessing

WASHINGTON, D.C.--For businesses, the stimulus bill that passed a party-line congressional vote Friday is a murky mix of handouts and tax breaks that should at least make consultants, accountants and lawyers happy.

The House of Representatives passed the \$787 billion stimulus bill 246-183. Friday night the Senate approved the measure by a vote of 60-38. It will likely reach President Obama's desk by Monday, despite that fact that Republicans roundly decry it as a long-term spending bill that few members of Congress have actually had the chance to read and that does little to create jobs immediately.

Embedded in the bill are restrictions on executive pay that go beyond limits the Obama administration outlined last week. The new restrictions, which apply to all firms that have received cash from the government's Troubled Asset Relief Program, cap bonuses for the companies' top executives to no more than one-third their annual salaries. Those bonuses are to be in the form of company stock, which can't be cashed in until the government gets its money back. Hundreds of banks, automakers General Motors and Chrysler and any other company that taps the TARP will be subject to the rules.

Critics say the provision will discourage banks from accepting government aid, which could make the credit crisis worse. On Feb. 3, the administration unveiled its own guidelines on executive pay, initiating a \$500,000 salary cap for top bosses at firms requiring "exceptional assistance" from Uncle Sam.

Large companies missed out on a key tax break in the final version of the stimulus bill. The biggest firms, which provide the vast majority of corporate income tax, will not get an expansion of the so-called net operating loss "carryback," designed to allow firms to record losses in previously profitable years.

On the tax side, the stimulus contains an expansion of bonus depreciation, allowing investments in new equipment to be depreciated at a quicker rate for 2009 as well as in 2008. Over the next two years, the measure is expected to help businesses reduce taxes owed by \$38 billion.

Also surviving is a provision that will reduce taxes for a business that buys back its own debt. Under current law, if a company repurchases its own debt at a discount it must pay taxes on the difference between the original debt and the discounted rate. The new legislation will allow companies to gradually recognize the income over five years instead of all at once.

The final legislation includes \$54 billion in aid to states for education and other services--about \$25 billion less than lawmakers in the House wanted. Also reduced is a tax credit of up to \$15,000 for home buyers; it's now \$8,000 and only for first-time buyers. An amendment that allows auto buyers to deduct state and local sales and excise taxes from vehicle purchases has been pared back from \$11 billion to \$1.7 billion.

The effects of the bill will be weighed by voters in the 2010 mid-term elections.

Original Article by Brian Wingfield and Joshua Zumbrun

Forbes.com

Faculty Advisor: Insights (Contd. From Page 1)

Accounts Receivable, Inventory, Accounts Payable are often viewed as “necessary evils” that must be tolerated in order to facilitate the “real” business of managing the fixed assets. Unfortunately, this view – based either on lack of attention or lack of understanding – can negatively impact a company’s return on total assets and return on invested capital.

Working Capital assets, including Cash, Receivables and Inventory often represent a substantial investment that has a zero ROI (Return On Investment). Actually, these assets have a **negative ROI** because they produce no revenue but require expenditures to manage them. On the other side of the balance sheet lie current liabilities including Accounts Payable. These funds owed to vendors and suppliers who have advanced credit to the business can be viewed as “free” money – that is, a loan with no interest unless penalties are imposed for late payment.

Effective Working Capital Management consists of minimizing investment in Current Assets and maximizing the use of vendor credit. While Cash Management usually gets a lot of attention, other working capital accounts are often poorly managed. Competitive pressures usually require granting credit to buyers so Accounts Receivable are unavoidable. Nevertheless, receivables can be minimized through several simple techniques: careful credit analysis to eliminate “deadbeats” or chronic late payers, rapid and accurate invoicing so customers have no excuse for late payment, follow-up reminders that payments are due, and diligent monitoring of the age of receivables to identify potential problem accounts before they become real problems. Inventory Management usually means having the minimum finished goods inventory necessary to prevent “stock outs” and avoiding excess raw material and work-in-progress inventory that creates storage costs and risk of spoilage or obsolescence. “Just-In-Time” inventory management techniques do not actually reduce overall inventory, they just push it further back in the pipeline – and get it off the business’ balance sheet where it contributes to a low ROI. Finally, effective Accounts Payable management usually consists of monitoring payments so that none are made until the last possible moment. Electronic funds transfer from bank to bank can facilitate this process. The only exception to this “rule” would be taking discounts for early payment where a simple equation may show a positive ROI for actually borrowing money to pay Accounts Payable early!

R. Stephen Kamp kamp@temple.edu

In Japan’s Stagnant Decade, Cautionary Tales for America

TOKYO — The Obama administration is committing huge sums of money to rescuing banks, but the veterans of Japan’s banking crisis have three words for the Americans: more money, faster. Only in 2003 did the government finally take the actions that helped lead to a recovery: forcing major banks to submit to merciless audits and declare bad debts; spending two trillion yen to effectively [nationalize](#) a major bank, wiping out its shareholders; and allowing weaker banks to fail.

By then, Tokyo’s main Nikkei stock index had lost almost three-quarters of its value. The country’s public debt had grown to exceed its gross domestic product, and [deflation](#) stalked the land. In the end, real estate prices fell for 15 consecutive years. Instead, the Japanese first tried many of the same remedies that the Bush administration tried and the Obama administration is trying — ultra-low interest rates, fiscal stimulus and ineffective cash infusions, among other things.

So far, the Obama administration’s plan avoids the hardest decisions, like nationalizing banks, wiping out shareholders or allowing banks to collapse under the weight of their own bad debts. In the end, Japan had to do all those things.

From 1992 to 2005, Japanese banks wrote off about 96 trillion yen, or about 19 percent of the country’s annual G.D.P. But Mr. Takenaka’s toughness restored faith in the banks. By then, other factors had fallen into place that aided economic recovery, including a boom in exports to the United States and China.

The United States will probably not be able to count on growing demand for its products, since the global economy is worsening.
Original Article by Hiroko Tabuchi
Nytimes.com

Financial Management Association – Officers 2009

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Sean Kane, sean.kane@temple.edu

Finance

Ilya Hvostikov, lhvostikov@temple.edu

Industry Relations

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Website Development/Banquet Chair

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Faculty Advisor

Prof. Stephen Kamp, kamp@temple.edu

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