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# CHRISTIAN VALUES IN WORKING CAPITAL MANAGEMENT: AN EDUCATIONAL PERSPECTIVE

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Prepared for the
37th International Faith and Learning
Held at
Avondale College
February, 2008

## INTRODUCTION

In an increasingly complex and rapidly changing world, the need for intelligent and ethical business people is greater than ever before. The business world today is full of corrupt and unethical practices. It therefore requires the participation of strongly trained business people with deep commitment to Christian values who are able to transact business in a professional and ethical manner. There is need to prepare professionals with ability to integrate Faith and Learning as they go about transacting business in secular markets. The major elements of working capital management will be explored with special reference to the Bible and the Spirit of Prophecy by Ellen G. White.

Working capital is the life-blood of modern business enterprises. We cannot imagine an entity without working capital in the business world regardless of its size. The problem of working capital management is equally important to government, semi-government organisations and private enterprises both profit and non-profit organisations. It is therefore very essential to clearly understand the meaning and significance of working capital.

Gross working capital is the organisation's investment in current assets like cash, marketable securities, accounts receivables and inventory. Net working capital on the other hand is current assets less current liabilities. Current assets are cash itself, accounts receivables, investments in short-term securities, and inventory. Current liabilities are basically short-term loans and accounts payables. Working capital management involves the administration of the enterprise's current assets and current liabilities. Commenting on the significance of working capital Van Horne (1998) observes that management of working capital is important for several reasons: Some of them are that current assets for a typical company account for over half of its total assets. He goes on to suggest that if a company is to operate efficiently, receivables and inventories must be tightly monitored and controlled. Excessive levels of current assets can easily result in a firm realizing a substandard return on investment. On the other hand, firms with too few current assets may incur shortages and difficulties in maintaining smooth operations. Correira and Flynn (1996) say most companies hold as much as 70% of their total asset investment in working capital. It therefore follows that working capital needs to be efficiently and effectively managed.

## PURPOSE OF THE ESSAY

The purpose of this essay is to introduce Christian principles, values and ethics as key factors which would add value to the elements of working capital management. The main aim is to reorganise the moral values of an unethical business world towards a better conduct of business affairs. It is in the preparation of Christian business people that Christ is uplifted in the business world and His Mission is advanced. Elements of working capital will be explored as factors of success to reveal that working capital can be well managed in a Christian manner.

## BIBLICAL INJUCTIONS REGARDING WORKING CAPITAL MANAGEMENT:

### Stewardship

White (1952) in her book Education says "whether we recognize it or not, we are stewards, supplied from God with talents and facilities, and placed in the world to do a work appointed by Him". A business scholar aspiring to be a business person in future should be taught to be a good steward. A steward is one who manages another person's property. According to White (1940) in her book Counsels on Stewardship every good thing of earth was placed here by the bountiful hand of God as an expression of His love to man. God says in Psalm 50:10-12 that the world is His, including all that is in it – every animal, cattle, bird, and all the creatures. Stewardship of the total life includes management of all God given resources like the **body temple** (1 Corinthians 6:9-20), **talents** (Mathew 25:14, 15) **time** (Psalms 90:10) and **treasure** (Proverbs 3:9). There is therefore no area of Christian stewardship that may be lawfully withheld from the services of the Master (Mathew 22:37).

In recognising that all wealth including land and capital belong to God, it is very important that business people should be good managers of all the resources at their disposal. It is also essential for the business students to know to return tithe on their incomes. Tithe is the Lord's portion of what we possess and receive as income and this portion is a tenth of everything we possess and receive The Lord Himself, the giver of all resources in Malachi 3:10 has got this to say, "bring the whole tithe into the storehouse, that there may be food in my house. Test me in this, says the Lord Almighty, and see if I will not throw open the floodgates of heaven and pour out so much blessing that you will not have room enough for it." White (1940) in her book Counsels on Stewardship says to withhold this portion is to rob God. She goes on to say every man should freely and willingly and gladly bring tithes into the storehouse of the Lord because in so doing there is a blessing. It is therefore so very important that business people should be good stewards in general and also be able to manage all the God given resources including their working capital so that they can improve the organisations' liquidity and profitability for the benefit of the general economy as a whole and also to support the work of the Lord through tithes and offerings.

### Usury

A dictionary meaning for the word usury is exploitation, extortion or profiteering. In business, the law of usury forbids excessive profits on credit transactions.
Christians should not make material gains from the misfortune of others. (White (1940) in her book Counsels on Stewardship page 254 also admonishes against taking advantage of others and states that the eighth commandment declares that every attempt to advantage oneself by the ignorance, weakness, or misfortune of another, is registered as fraud in the books of heaven. Paul writes to Timothy to be content and temperate in everything adding that godliness with contentment is great gain, but that the love of money is the root of all evil.
(1 Timothy 6:6-10)

**Temperance**
Business people should be modest in corporate affairs and shun from excessive display of wealth or position. This should be reflected in the lifestyle they choose to lead, the type of furnishings, cars and other consumables acquired by them. White (1949) in her book Temperance informs that people should not practise intemperance in seeking riches. She goes on to say that one of the most fruitful sources of shattered constitution among men is a devotion to the getting of money, an inordinate desire for wealth. According to Mrs White, this makes people to sacrifice rest, sleep and the comforts of life and is not good for God' steward.

**Social Responsibility**
It is common practice in business that an organization which receives its charter to operate in any locality must discharge certain obligations to that locality, since to whom much is given, much is expected. Elements involved in social responsibility include participation or sponsorship of communal projects, award of scholarship to indigenes of the area, donations to events or projects where the community has interest.. Moses handed over some rules to the Israelites who were about entering the promised land that they should compensate and free their servants and also forgive their debtors, as a mark of reciprocity for the acquisition of their land (Deut 15:1-18). Christ also taught the same principle, that we should consider the needy around us. (Matthew 25:31-46)

**Workmen compensation**
Most business people are in the habit of short-changing their workers. This they do in various forms ranging from making workers casual labourers with a view to denying them of certain allowances and equitable retirement plan, to delay or absence of opportunities for vertical mobility-enhancing career prospects. The book of James Chapter 5:1-6 offers a serious warning and curse to rich oppressors. Verse 4 says "Look, the wages you failed to pay the workmen who mowed your fields are crying out against you. The cries of the harvesters have reached the ears of the Lord Almighty."

## FACTORS FOR SUCCESS IN WORKING CAPITAL MANAGEMENT
The factors for success in working capital management are cash management, investment in short-term marketable securities, accounts receivables management, inventory management and current liabilities management. Effective working capital management requires that basic policies must be set regarding desired levels of each component. It also implies that an administrative framework must be established for business people to be able to control these assets within the policy guidelines.

## ELEMENTS OF WORKING CAPITAL MANAGEMENT

**Cash Management**
Keynes, (1936) suggested three reasons why businesses hold cash:

1. "**Transaction motive:** to meet payments such as purchases, wages, taxes and dividends arising in the ordinary course of business.

2. **Speculative motive:** to take advantage of temporary opportunities such as sudden decline in the prices of raw material etc.
3. **Precaution motive:** to maintain a safety cushion or a buffer to meet unexpected cash needs."

An organisation may be profitable, but without cash it is disabled. Bills are paid using cash and not profit. It is therefore very crucial that cash has to be managed well to make sure it is available whenever it is needed for transaction purposes, speculative purposes and precautionary purposes. Cash management, involves the efficient collection, disbursement and temporary investment of cash. That involves speeding up cash receipts and s-lo-w-i-n-g d-o-w-n cash payments.

The organisation has to speed up the collections of accounts receivables so that it can have the use of money sooner. Conversely it wants to pay accounts payables as late as is consistent with maintaining the firm's credit standing with suppliers so that it can make the most use of the money it already has. The combination of fast collections and slow disbursement will result in increased availability of cash. Van Horne (1998) observes that control of disbursements will slow down cash outflows and minimize the time that cash deposits are idle. One procedure for tightly controlling disbursements is to centralize payables into one single account so that disbursement of cash is made at the time they are desired. If cash discounts are taken on accounts payables, the firm should send payments at the end of cash discount period. If discount is not taken the firms should not pay until the final due date in order to have maximum use of cash.

**Challenges:**
Cash is the most liquid asset an organisation may have. In its liquid form it may find itself in wrong hands. Cash is the asset most subject to misappropriation, and it is therefore important to set up a good internal control system for handling cash and recording cash transactions. Such a system must contain procedures for protecting cash on hand as well as for handling both cash receipts and cash payments. Medlin (2006) observes that there are three particularly important principles of internal control system for cash and they are as discussed below:

1. The separation of responsibility for handling and custodianship of cash from responsibility for maintaining cash records- prevents misappropriation of cash and falsification of accounting records without collusion among employees.

2. The banking intact of each day's cash receipts – prevents the cashier from borrowing the funds for a few days and replacing them before they are deposited.

3. Making all payments by cheque or electronic transfer to a bank account of another person or entity- requires authorisation by designated personnel; the bank record of all cash transactions is a cross-check on the accuracy of the internal cash records of the entity.

The other challenge is that if cash is available and look like it is idle, it may be misused by the organisation itself by purchasing unnecessary items instead of investing it in more productive activities. Another challenge is that the organisation may mix business cash with that of the owner of business.

**Values:**
According to Farrant (1980), values are those standards of behaviour, qualities of character, human relationships, and lifestyles that are admired by a particular society. He further reiterates that they are established by various pressures that society exercises over its members to achieve conformity and are generally maintained by education in all its forms. Many of the scholars agree that values are not absolute but relative and may be interpreted into policies depending on what implications they will have in a given situation. White (1968) observes that students must be impressed with the fact that knowledge alone without good values may be, in the hands of the enemy, a power to destroy them. She goes on to say that it was a very intellectual being, one who occupied a high position among the angelic throng, that finally became a rebel; and many a mind of superior intellectual attainment is now being led captive by his power. The sanctified knowledge which God imparts is of the right quality and is full of good values and will tell to His glory.

With regard to cash handling a business requires honest and upright people who will make sure that cash is used for intended purposes. White (1952) in her book Education page 57 has this to say "The greatest want of the world is the want of men, men who will not be bought or sold, men who in their inmost souls are true and honest, men who do not fear to call sin by its right name, men whose conscience is as true to duty as the needle to the pole, men who will stand for the right though the heavens fall." It takes an honest steward to make sure that cash is properly handled and that an internal control system is in place and is adhered to. With regard to cash held for transaction purposes, it is crucial for a business student to know that when making payments, he should be very accurate to avoid disadvantaging either suppliers, customers, employees or even the organisation. For precaution motives, there is need for prudent judgement to ensure that enough money is set aside for the intended purposes. Too much money set aside for precaution purpose would imply poor stewardship because some of it will lie idle without being put to productive use. Jesus Christ talked about the unwise steward who withheld his single talent. (Matthew 25:26-28.) It is also very important to know that for accounting purposes a business entity is regarded at law as a separate legal entity, completely separate from its owners. As part of good stewardship, a business owner should know from the beginning that business cash should be kept separate from that of the owner of business to facilitate proper record keeping. .

**Investment in Short-Term Marketable Securities**
It is observed that when funds are being held for other than immediate transaction purposes, they should be converted from cash into interest bearing short-term marketable securities. Weston and Brigham (1992) say the applicable criteria for selection among the wide range of securities available include interest rate risk, purchasing power risk, liquidity and marketability risk. The greater the degree to which the price and returns of a

security fluctuate the greater the financial risk. Changes in the general level of interest rates will cause the prices of securities to fluctuate. In general the shorter the maturity of a debt instrument, the smaller the size of fluctuation in its price. Changes in general price levels will also affect the purchasing power of both the principal and income from investment in securities. The potential decline from a security's quoted market price when the security is sold is its liquidity or marketability risk. Liquidity in this case is the breath or thinness of market for a security. The higher the risk the higher the expected return. It is better to go for short-term high liquid assets in constructing the marketable securities portfolio.

**Challenges:**
As one plans to invest in short-term securities, the biggest challenge is the risk involved in the possibility that interest rates, purchasing power, liquidity and marketability of the securities may all be affected negatively over the investment period. Some of the factors like changes in the general level of interest rates will cause the prices of securities to fluctuate. Changes in general price levels will also affect the purchasing power of both the principal and income from investing in securities. Another challenge is that the organisation may be tempted to go on speculating and specializing in buying and selling of securities at the expense of their own core business.

**Values:**
For one to be brave enough to take the necessary risks one needs to be risk averse and assertive. However as the organisation takes the necessary business risks it is important for the business student to know that the short-term investments should not degenerate into "gambling" activities where they are involved in buying and selling of securities on a regular basis. The organisation should apply discernment, wisdom and shrewdness so that the investments should still remain in the realms of thriftiness and good stewardship. Proverbs 13:11 says "wealth gotten in haste shall be diminished but he that gathereth by labour shall have increase." Proverbs 28:20 also says "He that makes haste to be rich shall not be innocent."

## Management of Accounts Receivables

Accounts receivables or debtors are amounts of money owed to a business by customers who have received goods or services on credit. Weston and Brigham (1992) observe that the level of accounts receivable is determined by the volume of credit sales and the average period between sales and collections. The average collection period is usually dependent partly on economic conditions. During a period of tight money, customers may be forced to delay payment. There is a set of controllable credit policy variables that affect the management of accounts receivables and these are:

1. Credit standards
2. Credit terms
3. Collection policy

**Credit standards:**
Determining credit standards involves relating the marginal costs of credit to marginal profits on the increased sales. These costs include default credits, bad debt losses, high investigation and collection costs and high amounts and costs of capital tied up in receivable of less credit worthy accounts (who pay late). It is therefore, very important for the credit manager to evaluate the credit risk. To do that, the credit manager should consider the five C's of credit, which are character, capacity, capital collateral and conditions.

**Character** refers to the fact whether the creditor makes an honest effort to pay the debts or is likely to get away with something. **Capacity** is a subjective judgement of a customer's ability to pay based on past experience. **Capital** is measured by the general financial position of the business as indicated by financial ratio analysis with special emphasis on net worth of the enterprise. **Collateral** is represented by the assets offered by the customer as a pledge for security of the credit extended. **Conditions** refers to the impact of general economic trends on the business or to certain development in certain areas of the economy that may affect the customer's ability to meet the obligations.

By analyzing the five C's the credit manager tries to formulate judgements of the total expected costs of gathering credit to an account in relation to the expected increases in net revenues from sales produced by credit extension. If it is a new account, financial statements for the past three years may be requested for and financial ratio analysis can be performed. The emphasis is on liquidity, financial stability, debt capacity and profitability.

**Credit Terms:**
Van Horne (1998) observes that credit terms specify the length of time over which credit is extended to a customer and the discount if any given for early payment. For example one company's credit terms might be expressed as "2/10, net 30". "2/10 means that a 2% discount is given if the bill is paid within 10 days of the invoice date. Net 30 implies that, if a discount is not taken the full payment is due by the 30th day from invoice date. The trade-off is between the profitability of additional sales and the required return on the additional investment in receivables. Weston (1992) observes that lengthening the credit period stimulates sales, but there is a cost to tying up funds to receivables so determining the optimal credit period involves locating the point at which marginal profits on increased sales are offset by the cost of carrying the higher amount of accounts receivable. Offering discount will also increase gross sales and the average collection period will be shortened. The optimal discount is established at the point where costs and benefits are exactly offsetting.

**Credit Policy:**

Collection policy refers to the procedures the firm follows to obtain payment of past due accounts. Procedures have to be devised for handling delinquent accounts. The company may send reminding letters and those may be followed by a telephone call, if the payment is not received, it may turn the account over to a collection agency. The collection process can be expensive in terms of both out of pocket expenditures and lost goodwill and yet some firmness is needed to prevent undue lengthening in the collection period and to minimize losses. A balance must be struck between the cost and benefits of different collection policies.

A number of quantitative measures may be applied to the credit department of the firm to check if the company's collection policy is effective and the measures are discussed below:

a. Calculation of an average collection period for the firm which is calculated as follows:

**Accounts receivable/Average daily credit sales**
Block (1992) observes that an increase in the average collection period may be the result of a pre-determined plan to extend credit terms or the consequence of poor credit administration. If it is poor credit administration, the credit department has to do something to enhance the collection of accounts receivable.

b. **Calculation of a ratio of bad debts to credit sales.** An increase in the ratio may indicate either an aggressive market expansion or too many weak and delinquent accounts which need to be followed up and be made to pay if possible.

**c. Aging of accounts receivable:**
Another way of finding out if customers are paying their bills within the time prescribed in the credit terms would be to follow up the ages of the accounts receivable as shown in the table below:

**Age of receivables, May 31, 2007**

| Months of sales | Age of account (days) | Amounts | Percentage of account due |
|---|---|---|---|
| May | 0-30 | $60 000 000 | 60% |
| April | 31-60 | 25 000 000 | 25% |
| March | 61-90 | 5 000 000 | 5% |
| February | 91-120 | 10 000 000 | 10% |

*Source: Stanley Block p. 178*

Deducing from the table given above, if the normal credit terms are 30 days, the firm is doing something wrong because 40% of the accounts are overdue with 10% over 90 days outstanding. The credit department has to do something to collect the receivables within the credit terms.

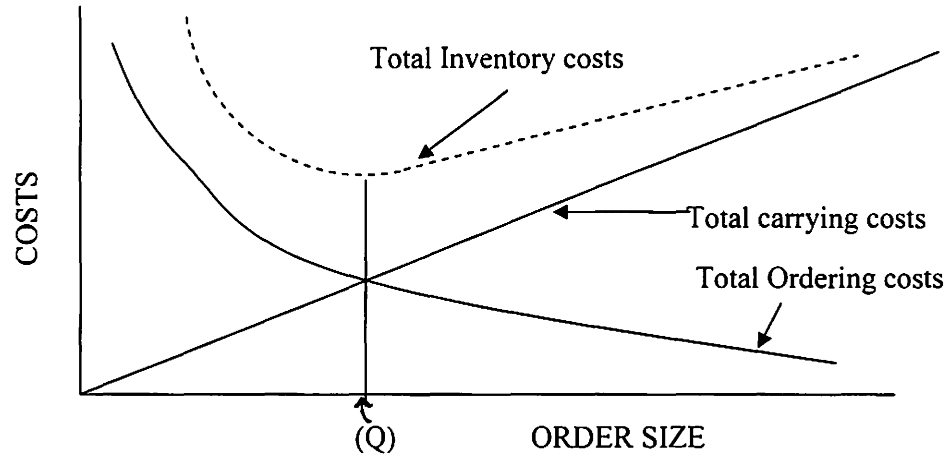
**Challenges:**
There is a possibility that some debtors may delay meeting their obligations beyond the agreed period. Some debtors may actually fail to pay completely. The major challenge is the expense involved in following up these debts. It is very important that debtor's characters should be put under severe scrutiny before extending them credit. An

organization does not want to loose money through bad debts or delayed payments. If a business enterprise has earned itself a poor reputation as far as paying their dues is concerned, they should not be considered for credit.

**Values:**
Stewardship requires that debts should be followed closely so that debtors pay their dues in time to avoid poor credit administration and facilitate quick collection of cash.
It therefore follows that when one is monitoring and following up on the accounts receivables they should be hardworking, diligent and assertive enough for them to bring home positive results. The Bible in Proverbs 22:29 says "See a man diligent in business' he shall stand before kings and not mere men." However, if a business enterprise is confronted with a genuine bad debt where a customer has proved beyond doubt his inability to pay, it is always right to err on the side of mercy. They should practise discernment and realise that it is time to apply the **golden rule (do unto others as you would like them to do unto you for this sums up the law and the prophets).** Mathew 7:12. The business student needs to be groomed and made to understand that even in business they should practise compassion and patience with their customers and at the same time be firm and diligent as revealed in the biblical text. (Micah 6:8) "to act justly and to love mercy." A business student should be prudent enough to do a cost and benefit analysis and know when to let go so as to avoid spending more money chasing a small debt. .

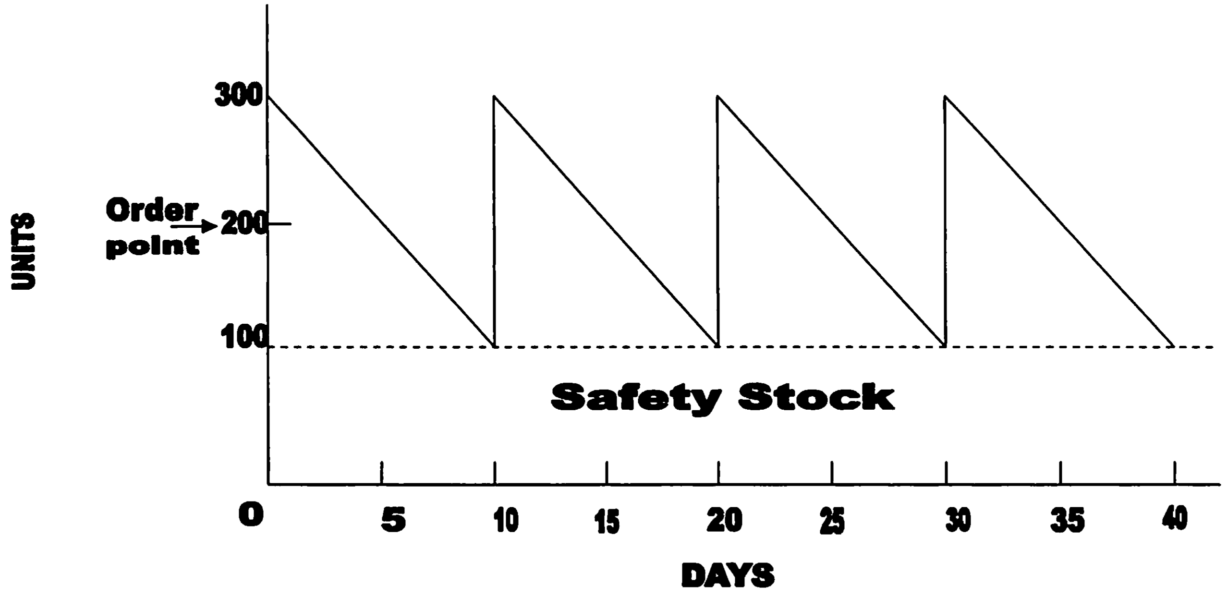
**Inventory Management**
Block and Hirt, (1992) observe that inventory may be raw materials, work in progress or finished products. All these forms of inventory need to be financed and if they are efficiently managed, that can increase a business' liquidity and profitability. Their effective management revolves around the determination of optimum inventory order quantity and usage rate.

**Challenges:**
The major challenge is the determination of optimum quantity of inventory to be kept in stock at any given point and time. If the organization maintains a relatively low average inventory in stock, they must order many times and total ordering costs will be high. On the other hand, as the order size increases, carrying costs go up because there is more inventory on hand. The challenge is to come up with a trade-off between the two major costs involved i.e. ordering costs and carrying costs. The approximate trade off between the two can best be judged by examining the total cost curve as shown below:




The figure above describes how a company can determine the optimum inventory level. We see that whereas total carrying costs vary directly with the size of the order, total ordering costs vary inversely with order size. The total inventory costs line declines at first as the fixed costs or ordering costs are incurred less often as fewer, but larger, orders are placed. However, the total inventory costs line then begins to rise when the decrease in total ordering costs is more than offset by the additional carrying costs caused by maintaining a larger average inventory. Point Q then represents the economic order quantity, which minimizes the total cost of inventory.

Van Horne (1998) observes that in addition to knowing how much to order, the firm must know when to order. Typically, demand for inventory is subject to great uncertainty. In addition to this the lead period required to receive delivery of inventory once an order is placed is usually subject to some variations. Owing to these fluctuations, it is not feasible to allow expected inventory to fall to zero before a new order is anticipated. When we allow for uncertain demand for inventory and lead time a safety stock becomes advisable see figure which follows below:




Strictly speaking, the proper amount of safety stock to maintain depends on several factors. The greater the uncertainty associated with forecasted demand for inventory the greater the safety stock the firm is willing to carry. What is important, however, is to make sure that management will not add safety stock beyond the point at which incremental carrying costs exceed the incremental benefits to be derived from avoiding a stock out. Keeping stock above optimum levels may result in pilferages, obsolescence of the inventory or loss due to calamities. Too low levels may result in the business running out of inventory and that disrupts business activities and may lead into loss of customers and shut downs.

**Just in time:**
In certain industries, the production process lends itself to Just-in-time (JIT) inventory control system. As the name implies, the idea is that inventories are acquired and inserted in production at the exact times they are needed. This requires a very accurate production and inventory information system, highly efficient purchasing, very reliable suppliers and efficient inventory handling system. JIT system is not only to reduce inventory, but to continuously improve productivity, product quality and manufacturing flexibility.

**Values:**
If inventory is more than needed at a given point and time, it is prudent for a Christian business person to use their discernment and practise generosity by selling at give away prices. This will help to clear old stock and give way to new and up to date stock. Proverbs 11:24 says "One man gives freely, yet gains even more; another withholds unduly but come to poverty." By all means a business student should learn to avoid too low levels of stock because the costs of shut downs or losing valuable customers will out weigh the risk of under stocking and that translates itself into poor stewardship. It is also

very important that the person involved with purchasing of stock should not be greedy and hoard unnecessary inventory. They should be very disciplined so that they do not purchase just because something is cheap, but stick to the book and purchase only when they are supposed to do so.

**Management of current liabilities (short-term loans and trade accounts payables)**
Current liabilities are the business's debts. Franklin (1994) has this to say "**creditors are a superstitious sect – great observers of days and time**" The quoted statement refers to the fact that creditors' dues have to be paid on time otherwise the organisation will be sued and will have to pay damages as compensation for breach of contract.

Small companies compared to large ones rely more on trade creditors, short-term loans and overdrafts because many small companies do not qualify and do not have the capacity to service long-term debts. For this reason it is very important that companies in general and small ones in particular are good at managing their current liabilities or their short-term financing. The most common current liabilities are short-term loans and trade accounts payables.

Van Horne (1998) observes that short-term financing can be categorized according to whether or not the source is spontaneous. Accounts payables and accrued expenses are classified as spontaneous because they arise naturally from the firm's day-to-day transactions. Their magnitude is primarily a function of a company's level of operations. While all spontaneous sources of financing behave in this manner, there still remains a degree of discretion on the part of a company as to the exact magnitude of this financing. The essay will also explain accrued expenses, negotiated (or external) sources of short-term financing, unsecured and secured loans.

**Spontaneous Financing:**
Accounts payable (trade credit from suppliers) are common to many companies. They are collectively the largest source of shot-term funds for especially small businesses. As the firm increases its production and corresponding purchases, accounts payables increase and provide part of the funding needed to finance the increase in production. If a cash discount is offered but not taken there is a definite opportunity cost. If, for example, the terms of sale are "2/10, net 30" the firm has the use of funds for an additional 20 days if it does not take the cash discount, but pays on the final day of net period. For a $100 invoice it would have the use of $98 for 20 days and for the privilege it pays $2. Weston and Brigham (1993) observe that the costs of not taking cash discount often exceed the rate of interest at which the buyer can borrow, so it is important that the firm be cautious in its use of trade credit as a source of funding.

**Advantages of trade credit:**

1. Trade credit is readily available
2. There is no need to formally arrange financing
3. There is no need to negotiate with the supplier
4. If the firm is taking cash discount, additional credit is readily available by not paying existing accounts payable until the end of the net period.

**Accrued expenses:**
Van Horne (1998) defines accrued expenses as amounts owed but not yet paid for like wages, rates, interest, dividends and taxes. Like accounts payable, accrued expenses tend to rise and fall with the firm's level of operations because as sales increase labour costs increase and with them accrued wages also go up. While accrued wages increase with increased sales, accrued wages increase with increase in profits as well.

**Negotiated Financing (External) Short-Term Financing**
The principal sources of short-term loans are commercial banks and finance companies. Business loans can be unsecured loans or secured loans. An unsecured loan is a form of debt for money borrowed that is not backed by the pledge of specific assets. Secured loans are a form of debt for money borrowed in which specific assets have been pledged to guarantee payment.

Unsecured loans are usually granted by commercial banks and not by finance companies and they are regarded as 'self liquidating' in the sense that the assets purchased with the proceeds generate sufficient cash flow to pay off the loan. This type of loan is popular particularly in financing seasonal build ups in accounts receivable and inventories. For most new or unproved companies they cannot obtain unsecured loans because the banks do not know their ability or they do not have regards for the firm's ability to service the amount of debt sought. Before lending to such firms the banks may require security (collateral) that will reduce their risk of loss. The lenders will always seek security with a market value sufficiently above the amount of loan to minimize the likelihood of their not being able to sell security in full satisfaction of the loan. In practice, when the loan is short-term, the assets most commonly used as a security are accounts receivable and inventories. When a lender is going to advance credit based on accounts receivable he is covered with the quality and the size of the receivables. The smaller the size of the accounts the more it costs per dollar of loan to process them. The borrower usually sends the lender a schedule of accounts, then the lender will require the borrower to sign a promissory note and a security agreement then the borrower receives the face value for the receivable shown on the schedule. Accounts receivable loan is more or less "continuous financing arrangement." As the firm generates new receivables that are acceptable to the lender, they are pledged, adding to the security against which the firm is able to borrow. As receivables build up, the firm is able to borrow additional funds against them to help finance the build up so the firm has access to "built-in financing."

**Inventory backed loans**
Liquid assets like raw materials and finished goods inventory are suitable security for short-term loans. Van Horne (1998) observes that lenders will determine the percentage they are willing to advance by considering the marketability, perish ability, market price stability, the difficulty and expense of selling the inventory to satisfy the loan and also on the cash flow ability of the borrower to service the loan. A lender can obtain secured interest in inventories through floating lien, chattel mortgage and trust receipt. Floating lien allows for the legal seizure of the pledged assets in the event of default. With a chattel mortgage, inventories are identified by serial number or some other means. The

borrower continues to hold the title to goods; the lender has a lien on inventory. The particular inventory cannot be sold unless the lender consents. Under trust receipt arrangement, the borrower holds the inventory and proceeds from the sale. The inventory in trust is specifically identified by the serial number or other means.

**Factoring Accounts Receivable:**
Factoring is the selling of receivables to a financial institution, the factor, usually with recourse. When a firm factors its receivables, it transfers title to the receivables by selling them to a factor. The buyer of the goods is notified of the transfer and makes payment directly to the lender. The factor receives a commission of about 1% of the face value of the receivables for bearing credit risk and servicing the receivables. If the factor advances money to the firm before the receivables are due, he will require compensation in the form of an interest charge. For example, if the factored receivables are $10 000 and the factoring fee is 2% the factor will credit the firm' account with $9 800. If the firm wants to withdraw on this account before the receivables become due, it will have to pay an interest charge of say 1.5% a month for the use of funds. So if the firm takes a cash advance the cost of factoring is composed of the factoring fee plus interest charge. If the firm does not take interest advance there is no interest and if it leaves its funds with the factor beyond the receivables due date, the firm will receive interest on the account from the factor. Factoring of receivables has its own advantages. It relieves the firm from credit checking, cost of processing receivables, collection expense and bad debt expense. For small firm the saving can be substantial.

The best combination of alternative sources of short-term financing depends on considerations of cost, availability, timing, flexibility and the degree to which the assets of the firm are encumbered (burdened with legal claims).

**Challenges:**
It is possible that a business may pay its obligations late or even fail to pay a loan facility or even a trade accounts payable completely. If an organisation decides to give collateral in the form of either accounts receivable or inventory, there is a chance that they may eventually loose the collateral when they fail to pay off the loan. Failing to take advantage of cash discount may be viewed by suppliers as liquidity weakness. Another challenge is that when an organisation fails to pay their obligation they may be sued by the other party for breach of contract and that becomes costly for the organisation. All the above mentioned challenges impact negatively on the business's trade worthiness. This may result in loosing good suppliers in case of a trade transaction and the organisation may suffer impaired goodwill..

**Values:**
White. (1940) in her book Counsels on Stewardship observes that in business, economy must be practiced in every line to keep afloat, and not be drowned with debts. In the same book page 249 she goes on to say "Many, very many, have not so educated themselves that they can keep their expenditures within the limit of their income. They do not learn to adapt themselves to circumstances, and they borrow and borrow again and again, and become overwhelmed in debt, and consequently they become discouraged and

disheartened." This problem brings in the value of contentment. As business students, they should exercise contentment and temperance so that they do not have to borrow unnecessarily especially in the light of high interest rates. The business should be responsible enough to borrow within their means, "to bite what they can chew". It is always regarded as a sign of good financial management if an organization is able to meet their financial obligations. If they are not able to do so on time, it is better to communicate and probably request for an extended period. An organisation should not be seen to be careless with its debts otherwise they will lose their credibility and that spoils their reputation in the business world.

## CONCLUSION

A professional who embraces the above discussed Christian values should be a valuable contribution to society and the business world because they are able to deal with cash management, investments in short-term securities, accounts receivables management, inventory management and current liabilities in an ethical manner. These success factors will enable business people improve their liquidity and consequently the overall profitability.

This paper attempted to make a statement that as Christian educators we should answer the call and prepare students who will be able to operate above waters in the business world, students who are good stewards who will be able to manage their working capital and remain liquid enough to be able to meet their short-term obligations, thus managing to survive and become viable in the long-run. This results in the Christian students becoming models to non Christian business people out there in the business world and the Good Lord will bless them abundantly.

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