

Example 4: Working Capital Management.

Determine how to invest excess cash in 1-month, 3-month and 6-month CDs so as to maximize interest income while meeting company cash requirements (plus safety margin).

	Yield	Term	Purchase CDs in months:	Interest
1-mo CDs:	1.0%	1	1, 2, 3, 4, 5 and 6	
3-mo CDs:	4.0%	3	1 and 4	
6-mo CDs:	9.0%	6	1	
Total				Earned: \$7,700

Month:	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	End
Init Cash:	###	###	###	###	###	###	###
Matur CDs:		100,000	100,000	110,000	100,000	100,000	120,000
Interest:		1,000	1,000	1,400	1,000	1,000	2,300
1-mo CDs:	100,000	100,000	100,000	100,000	100,000	100,000	
3-mo CDs:	10,000			10,000			
6-mo CDs:	10,000						
Cash Uses:	75,000	(10,000)	(20,000)	80,000	50,000	(15,000)	60,000
End Cash:	###	###	###	###	###	###	###

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