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SUPPLY CHAIN FINANCE ON

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# Fundamentals of supply chain finance

# Supply chain finance eco system

# References

**There are no sources in the current document.**

# Glossary

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| AP | Accounts Payable AP is money owed by a business to its suppliers and shown on its balance sheet as a liability. |
| AR | Accounts Receivable AR is money owed by suppliers to a business and shown on its balance sheet as an asset. |
| COGS | Cost Of Goods Sold COGS represent the direct costs attributable to the production of the goods sold by a company. This amount includes the cost of the materials used in creating the good along with the direct labour costs used to produce the good. It excludes indirect expenses such as distribution costs and sales force costs. |
| DPO | Days Payable Outstanding DPO= (Accounts payable/COGS) x 365 |
| DSO | Days Sales Outstanding DPO= (Accounts Receivables/Net sales) x 365 |
| Full-time equivalents | The number of employees equivalent to one full-time employee. 1FTE = one employee working full time |
| KYC | Know Your Customer Refers to relevant information obtained from a bank’s clients for the purpose of doing business with them. The objective of KYC guidelines is to prevent banks from being used, intentionally or unintentionally, by criminal elements for money laundering activities. Related procedures also enable banks to know or understand their customers, and their financial dealings better. This helps them to manage their risks prudently. |
| Receivable Finance | Receivable Finance allows suppliers to finance their receivables relating to one or many buyers and to receive early payment, usually at a discount on the value. |
| Recourse (with/without) | ‘With recourse’ is a legal agreement that provides protection to lenders, as they are assured of having some sort of repayment – either cash or liquid assets – in the event that the borrower is unable to satisfy the debt obligation. |
| ‘Without recourse’ | In a ‘Without recourse’ agreement, If the borrower defaults, the issuer can seize the collateral (usually property), but cannot seek out the borrower for any further compensation, even if the collateral does not cover the full value of the defaulted amount. |
| SCF | Supply Chain Finance The use of financial instruments, practices and technologies to optimise the management of the working capital and liquidity tied up in supply chain processes for collaborating business partners. SCF is largely ‘event-driven’. Each intervention (finance, risk mitigation or payment) in the financial supply chain is driven by an event in the physical supply chain. The development of advanced technologies to track and control events in the physical supply chain creates opportunities to automate the initiation of SCF interventions. |
| Spread | An amount that each bank decides to add to the base rate as its revenue. The bank buys the money at a price (exchange interbank rate) and resells it to its customers recharged with a profit margin (spread). |
| WACC | Weighted Average Cost of Capital As a company’s assets are financed by either debt or equity, WACC is the average of the costs of these sources of financing, each of which is weighted by its respective use in the given situation. By taking a weighted average, we can see how much interest the company has to pay for every dollar it finances. |
| Working Capital | The amount of day-by-day operating liquidity available to a business. In mathematical terms, working capital is calculated as WC=(AR)+(Inventory) – (AP) + (Cash) |