

M7L4. Long-term & Short-term Debt

Slide #1



The slide cover is divided into two main sections. The left section has a dark background with white and yellow text. At the top is the Texas A&M University Engineering logo. Below it, the title 'Long-term & Short-term Debt' is written in white. Under the title is the name 'Dr. Xiaomin Yang'. At the bottom, 'TCMT 612' is written in yellow, followed by 'Technical Management Decision Making' in white. A red banner at the very bottom contains the text 'MASTERS OF ENGINEERING TECHNICAL MANAGEMENT' in white. The right section features a light gray background with a large, semi-transparent image of a person in a white shirt standing with hands on hips, looking at a large screen. The screen displays a complex network diagram with many nodes and lines, and several smaller icons representing different types of charts and graphs.

TEXAS A&M UNIVERSITY
Engineering

Long-term &
Short-term Debt

Dr. Xiaomin Yang

TCMT 612 | Technical Management
Decision Making

MASTERS OF ENGINEERING TECHNICAL MANAGEMENT

In this topic, we will discuss long-term and short-term debt.

Slide #2

Business financing: long-term debt

Long-term debt: > 12 months to fund capital investment



What is long-term debt? Long-term debt consists of loans and financial obligations lasting over one year. It is also called long term liabilities on a firm's financial statement.

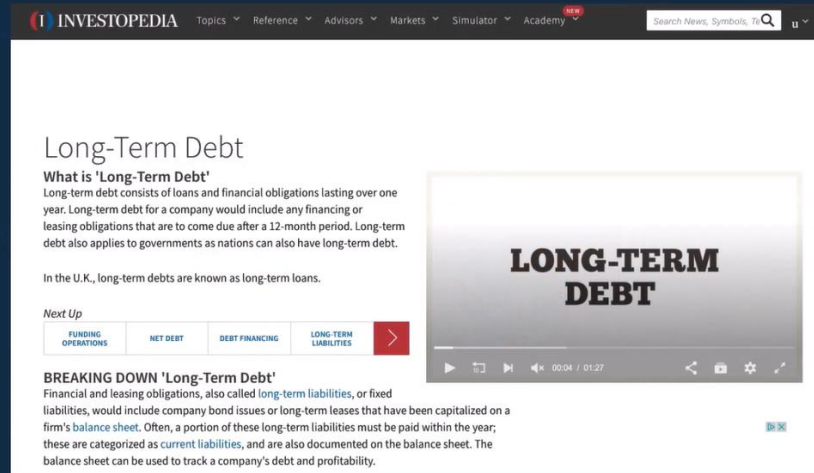
Companies take on long term debt in order to acquire capital. For instance, a company may take out a long-term loan to purchase infrastructure asset, procure major equipment, or invest in research and development.

Since debt sums tend to be large, these loans take many months or even years to pay off. Companies with too much long-term debt will find it hard to pay off this debt and continue to thrive, since most of their capital is devoted to interest payments, making it difficult to allocate the money to other areas.

A company can determine whether it has accrued too much long-term debt by examining its debt-to-equity ratio.

If the ratio is too high, the company is at risk of financial difficulties as it has to spend too much cash on interest payment. You will learn this from the optimization case.

Slide #3



Long-Term Debt

What is 'Long-Term Debt'

Long-term debt consists of loans and financial obligations lasting over one year. Long-term debt for a company would include any financing or leasing obligations that are to come due after a 12-month period. Long-term debt also applies to governments as nations can also have long-term debt.

In the U.K., long-term debts are known as long-term loans.

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FUNDING OPERATIONS	NET DEBT	DEBT FINANCING	LONG-TERM LIABILITIES
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BREAKING DOWN 'Long-Term Debt'

Financial and leasing obligations, also called [long-term liabilities](#), or fixed liabilities, would include company bond issues or long-term leases that have been capitalized on a firm's [balance sheet](#). Often, a portion of these long-term liabilities must be paid within the year; these are categorized as [current liabilities](#), and are also documented on the balance sheet. The balance sheet can be used to track a company's debt and profitability.

LONG-TERM DEBT

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Link to web page with video is below this topic

Please watch the video clip to know more about long-term debt.

Slide #4

Business financing: short-term debt

Short-term loan: < 12 months to fund working capital needs



- Higher interest rate
- Short payback period (in months)
- increased the exposure of firms to credit and liquidity shocks

Short-term debt usually refers to short term bank loans due within some months.

Typically, the interest rate of short-term debt is higher than that of long term debt.

The short-term debt is registered in the current liabilities in a company's financial statement.

Companies take-out short-term loans from banks to finance operations activities, such as purchase raw materials, maintain inventories, manage account receivables and account payables, as well as fund employees payroll.

The total amount of long-term debt account is very important when determining a company's performance.

If the account is larger than the company's cash and the cash equivalents, this suggests that the company may be in poor financial health and does not have enough cash to pay off its short-term debts.

So a company must carefully manage its short term debt to avoid being unable to pay the principal of the short term debt.