

Closed book

1. Character, capacity, capital, collateral, and conditions
2. It categorizes inventory into 3 groups-A, B, or C- on the basis of critical needs. The most important things go into category A and the least into category C
3. A
4. clearly stated objectives, assumptions, strategies,, contingency plans, budgets, a financial program, and pro forma financial statements.
5. C
6. A
7. B
8. D
9. A
10. B
11. A
12. B
13. D
14. A
15. D
16. E
17. B

Open book

1. (15 points) Your company has \$0 in its checking account. Your company needs to borrow money for one year, such that it has a \$125,000 remaining balance at the end of one year. You are offered the following loans, all with a quoted 8% annual interest rate. Two question for each loan. 1) What amount must you borrow today in order to have \$125,000 at the end of one year? What is the effective annual interest rate for each loan?

Interest in Arrears

Initial Loan Amount = 125000 Effective Interest Rate = 8%

Discount Loan

Initial Loan Amount = 135875 Effective Interest Rate = 8.7%

Interest in Arrears with a 15% Compensating Balance

Initial Loan Amount = 147058 Effective Interest Rate = 9.41

Discount Interest with a 15% compensating balance

Initial Loan Amount = 159846 Effective Interest Rate = 10.39%

2. (12 points) For the following trade credit terms, what are the effective and nominal rates.

3/10, net 30 Nominal Rate	56.44%	Effective Rate	74.35%
1/20, net 45 Nominal Rate	14.75%	Effective Rate	15.8%
2/10, net 15 Nominal Rate	149%	Effective Rate	337%
1/30, net 60 Nominal Rate	12.29%	Effective Rate	13.01%

3. (12 points) Pemini Beverage has the following historical balance sheet:

Cash \$220 Accounts payable \$204
 Accounts receivable 60 Notes payable 130
 Inventory 312 Accruals 36
 Total current assets \$ 592 Current liabilities \$ 370
 Net plant & equipment \$ 420 Long-term bonds \$260
 Common stock 270
 Retained earnings 112
 Total assets \$1,012 Total liab. & equity \$1,012

Next year Gemini's sales are forecast to increase from 1200 to 1440. Several balance sheet items vary directly with sales as follows; Accounts Receivable= 5%, Inventory=26%, Net Plant and Equipment=35%, Accounts payable =17%, Accruals = 3%. Cash will remain at \$220. The firm has no plans to issue long-term securities. The firm's net profit margin is 10%. The firm pays out 50% of net income as dividends. Write out the new balance sheet, use the Notes Payable account as a plug account to make your balance sheet balance. It is OK if the Notes Payable is negative on your pro forma statement.

Cash	<u>\$220</u>	Accounts payable	<u>\$244.8</u>
Accounts receivable	<u>\$72</u>	Notes payable	<u>\$168.4</u>
Inventory	<u>\$374.4</u>	Accruals	<u>\$43.2</u>
Total current assets	<u>\$666.4</u>	Current liabilities	<u>\$456.4</u>
Net plant & equipment	<u>\$504</u>	Long-term bonds	<u>\$260</u>
		Common stock	<u>\$270</u>
		Retained earnings	<u>\$184</u>
Total assets	<u>\$1170.4</u>	Total liab. & equity	<u>\$1170.4</u>