

Instructions:

- 1) The part of the exam is closed book and closed notes. No scrap paper is allowed; use the back of the exam if necessary.
- 2) Partial points are based on readily observable evidence that you know at least part of the solution concept. The more evidence presented (and the clearer the evidence), the better the chance for partial points. In other words, **SHOW ALL WORK!**
- 3) True/False questions are worth 3 points. Multiple-choice questions are worth 4 points. Short answer questions usually take less than three sentences and are worth 5 points.

1. What is Working Capital Management?

2. List the 5 C's of credit?.

- | | |
|----|----|
| 1. | 2. |
| 3. | 4. |
| 5. | |

3. Which of the following statements is false?

- A) A line of credit is an arrangement between a bank and a customer concerning the maximum loan balance the bank will permit the borrower at any one time.
- B) Stretching the payments on accounts payable is a good example of the Principle of Signaling.
- C) Commercial bank lending is second in importance to trade credit as a source of short-term financing.
- D) Firms may "stretch" accounts payable by postponing payment beyond the end of the net period.

4. What are the steps to a complete financial plan, at a minimum?

5. Which of the following statements is true?

- A) When trade credit is extended, the buyer specifies the period of time allowed for payment.
- B) Trade credit is credit extended by one firm to another.
- C) Businesses do not routinely grant trade credit on the sales of their goods and services.
- D) The terms "2/10, net 30" mean the buyer can take a 2% cash discount if payment is made within 30 days (the discount period).

6. What are safety stocks?

7. Fullis Tours has a credit policy where full payment is required after 60 days. If the customers pay by the 20th day, they are entitled to a 2 percent discount. Which of the following correctly identifies its credit policy?

- a. 2/20, net 60
- b. 2/60, net 20
- c. 20/2 net 60
- d. 20/60, net 2
- e. 60/20, net 2

8. Cash budgeting is the process of projecting (forecasting) and summarizing firm's cash inflows and outflows expected during the planning horizon.

- a. True
- b. False

9. Offering trade credit discounts is costly to a firm and as a result, firms that offer trade discounts are usually those that are performing poorly and need cash quickly.

- a. True
- b. False
- a. True
- b. False

10. In the implementation phase, every manager receives a copy of the pro forma financial statements and budgets.

- a. True
- b. False

11. Which of the following statements is true?

- A) ABC system of inventory control looks at the percentages of sales collected during various months.
- B) A simple and useful inventory management model is the economic order quantity (EOQ) model.
- C) The collection process can be viewed as a capital budgeting process wherein the firm wants to use the collection procedures that generate the highest safety stock.
- D) Businesses follow a number of specific steps in the JIT process, depending on how long overdue the account is, the size of the debt, and other factors.

12. What is credit scoring?

13. Over the planning horizon, the cash flow break-even point is the point below which the firm will need to _____.

- A) buy back debt
- B) liquidate some of its assets to meet its fixed costs
- C) raise dividends
- D) none of the above

14. A budget is simply part of a financial plan, and plans need to be adapted to new opportunities and circumstances.

- a. True
- b. False

Exam 3 Spring 2005 FINC 4532 Your Name _____
YOU HAVE 120 MINUTES TO COMPLETE BOTH PARTS OF THIS EXAM

Instructions:

The part of the exam is open book and open notes.

Point values are listed with the question.

3) Look over the entire exam before starting. The best strategy is generally to “cherry pick”. In other words, solve the easiest (and/or most familiar) problems first. This will save time (and energy) that can be expended on the more difficult problems.

4) Partial points are based on readily observable evidence that you know at least part of the solution concept. The more evidence presented (and the clearer the evidence), the better the chance for partial points. In other words, **SHOW ALL WORK!**

5) If you have additional time remaining, give your work one last check.

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 \$120,000 remaining balance at the end of one year. You are offered the following loans, all with a quoted 9.5% annual interest rate. Two question for each loan. 1) What amount must you borrow today in order to have \$120,000 at the end of one year? What is the effective annual interest rate for each loan?

Interest in Arrears

Initial Loan Amount = _____ Effective Interest Rate = _____

Discount Loan

Initial Loan Amount = _____ Effective Interest Rate = _____

Interest in Arrears with a 5% Compensating Balance

Initial Loan Amount = _____ Effective Interest Rate = _____

Discount Interest with a 5% compensating balance

Initial Loan Amount = _____ Effective Interest Rate = _____

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

2/10, net 30 Nominal Rate _____ Effective Rate _____

6/10, net 70 Nominal Rate _____ Effective Rate _____

1/15, net 45 Nominal Rate _____ Effective Rate _____

1.5/15, net 50 Nominal Rate _____ Effective Rate _____

3. (16 points) Semini Beverage has the following historical financial statements:

	2004	2005
Sales	\$1200	\$1308
Oper. Expenses	\$668	_____
Depreciation	\$200	\$210
EBIT	\$332	_____
Interest Expense	\$24	_____
EBT	\$308	_____
Taxes	\$95.48	_____
Net Income	\$212.52	_____

Balance Sheet	2004	2005		2004	2005
Cash	\$250	\$_____	Accounts payable	\$290	_____
Accounts receivable	\$170	_____	Notes payable	\$173	_____
Inventory	<u>\$402</u>	_____	Accruals	<u>\$156</u>	_____
Total current assets	\$822	_____	Current liabilities	\$619	_____
Net plant & equip.	\$550	_____	Long-term bonds	\$262	_____
			Common stock	\$285	_____
			Retained earnings	<u>\$206</u>	_____
Total assets	<u>\$1,372</u>	_____	Total liab. & equity	<u>\$1,372</u>	_____

Next year Gemini's sales are forecast to increase from 1200 to 1308. Operating expenses are a constant percent of sales. Depreciation is as listed for next year. The interest rate on bonds and the firm's tax rate will be unchanged next year. Several balance sheet items vary directly with sales; Accounts Receivable, Inventory, Accounts payable, and Accruals. The firm plans to increase long term assets by \$180. Cash will remain at \$250, unless adjustments are needed for compensating balances. The firm has no plans to issue equity, but will issue \$120 in bonds as soon as the year begins. These bonds have a compensating balance requirement of 10%. The firm pays out 65% of net income as dividends. Write out the new income statement and 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.

Peer Grading for Group Project, can affect individual group grades by up to 20 points. You are to grade your peers in the group project. To do this, list the members of your group excluding your name. Allocate a total of 100 points among the group members. Do not give less than 0 or more than 100 points to any member. If you wish to allocate points equally, write "same" in the points allocated area. For your allocation to count, you must correctly list all of your group member's names, excluding your name, and you must allocate exactly 100 points. It is your choice as to how you allocate points, but it is expected that you will give higher points to those who made the larger contributions to the projects. If everyone made similar contributions, use "same" to equally allocate points. Note, this is a zero sum game, increased points (grade) for one group member reduces the grade for other group members.

Name	Points Allocated
_____	_____
_____	_____
_____	_____
_____	_____
	<u>Total Points = 100</u>