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

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
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:

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales</th>
<th>Oper. Expenses</th>
<th>Depreciation</th>
<th>EBIT</th>
<th>Interest Expense</th>
<th>EBT</th>
<th>Taxes</th>
<th>Net Income</th>
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</thead>
<tbody>
<tr>
<td>2004</td>
<td>$1200</td>
<td>$668</td>
<td>$200</td>
<td>$332</td>
<td>$24</td>
<td>$308</td>
<td>$95.48</td>
<td>$212.52</td>
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<tr>
<td>2005</td>
<td>$1308</td>
<td>_______</td>
<td>_______</td>
<td>_______</td>
<td>_______</td>
<td>_______</td>
<td>_______</td>
<td>_______</td>
</tr>
</tbody>
</table>

Balance Sheet

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash</th>
<th>Accounts payable</th>
<th>Accounts receivable</th>
<th>Inventory</th>
<th>Notes payable</th>
<th>Accruals</th>
<th>Total current assets</th>
<th>Long-term bonds</th>
<th>Common stock</th>
<th>Retained earnings</th>
<th>Total assets</th>
<th>Total liab. &amp; equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>$250</td>
<td>$290</td>
<td>$170</td>
<td>$402</td>
<td>$173</td>
<td>$156</td>
<td>$822</td>
<td>$262</td>
<td>$285</td>
<td>$206</td>
<td>$1,372</td>
<td>$1,372</td>
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<tr>
<td>2005</td>
<td>_______</td>
<td>_______</td>
<td>_______</td>
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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 (whole numbers only) 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, while this is a zero sum game, increased points (grade) for one group member reduces the grade for other group members, your scoring of other students will not affect your grade on the project. You are to write the names of all the group members, even if you give them 0 points. In the event, you do not write the names of all of the group members, your point allocation will be credited as “same.”

<table>
<thead>
<tr>
<th>Name</th>
<th>Points Allocated</th>
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Total Points = 100