

8. What are safety stocks?

9. Fullis Tours has a credit policy where full payment is required after 40 days. If the customers pay by the 10th day, they are entitled to a 1 percent discount. 15% of customers pay on the day they purchase an item, 20% pay on the 10th day, and average collection period is 35 days. Which of the following correctly identifies Fullis Tours credit policy?

- a. 1/0, net 35
- b. 1/10, net 10
- c. net 35
- d. 1/40, net 35
- e. 1/10, net 40

10. 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

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

- a. True
- b. False

12. 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.

13. Which of the following is false?

a. An increase in cash dividends would increase a firm's need for additional external financing.

b. An increase in the net profit margin would decrease a firm's need for additional external financing.

c. A decrease in the credit period offered by the firm's suppliers would increase a firm's need for additional external financing.

d. An increase in the credit period offered to the firm's customers would decrease a firm's need for additional external financing.

e. An increase in corporate income tax rates would increase a firm's need for additional external financing.

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 2007 FINC 4532 Your Name _____
YOU HAVE 90 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. (4 points) A firm’s inventory conversion period is 35 days, its receivables collection period is 10 days, and its payables deferral period is 30 days. How long is the firm’s cash collection cycle?

2. (15 points) Your company has \$0 in its checking account. Your company needs to borrow money for one year, such that it has a \$180,000 remaining balance at the end of one year. You are offered the following loans, all with a quoted 11.7% 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 15% Compensating Balance

Initial Loan Amount = _____ Effective Interest Rate = _____

Discount Interest with a 15% compensating balance

Initial Loan Amount = _____ Effective Interest Rate = _____

3. (12 points) For the following trade credit terms, what are the effective and nominal rates.

1/10, net 20 Nominal Rate _____ Effective Rate _____

1/10, net 30 Nominal Rate _____ Effective Rate _____

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

3/15, net 60 Nominal Rate _____ Effective Rate _____

4. (16 points) Semini Beverage has the following historical financial statements:

	2006	2007
Sales	\$1500	\$1410
Oper. Expenses	\$968	_____
Depreciation	\$200	\$194
EBIT	\$332	_____
Interest Expense	\$66	_____
EBT	\$266	_____
Taxes	\$90.44	_____
Net Income	\$175.56	_____

Balance Sheet	2006	2007		2006	2007
Cash	\$185	\$_____	Accounts payable	\$220	_____
Accounts receivable	\$470	_____	Notes payable	\$73	_____
Inventory	<u>\$632</u>	_____	Accruals	<u>\$348</u>	_____
Total current assets	\$1287	_____	Current liabilities	\$641	_____
Net plant & equip.	\$1560	_____	Long-term bonds	\$825	_____
Accum. Depreciation	\$890	_____	Common stock	\$285	_____
Net plant & equip.	\$670	_____	Retained earnings	<u>\$206</u>	_____
Total assets	<u>\$1.957</u>	_____	Total liab. & equity	<u>\$1.957</u>	_____

Next year Gemini's sales are forecast to decrease from 1500 to 1410. Operating expenses are a constant percent of sales. Depreciation is as listed for next year. Interest expense varies directly with Long-term bonds. Notes payable are discount bonds and accrue no interest. 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 purchase long term assets by \$180. They do not plan to dispose of any long term assets. Cash will remain at \$185, unless adjustments are needed for compensating balances. The firm has no plans to issue equity or long-term bonds. The firm pays out 55% 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 point’s 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 (first/preferred and last) of all the group members, even if you give them 0 points. In the event, you do not write the names (first/preferred and last) of all of the group members, your point allocation will be credited as “same.”

Name	Points Allocated
_____	_____
_____	_____
_____	_____
_____	_____
	Total Points = 100