

Key

Exam 3 Spring 2007 FINC 4532 Your Name _____
YOU HAVE 90 MINUTES TO COMPLETE BOTH PARTS OF THIS EXAM

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. Define Working Capital?

Total
Current assets - *total*
Current liabilities

2. List the 5 C's of credit?

1. Character
2. Capacity
3. Collateral
4. Conditions
5. Capital

3. Per the textbook, For a given company, which of the philosophies about financing working capital would lowest level of interest charges?

- C*
- a. a maturity matching approach
 - b. a conservative approach
 - c. an aggressive approach
 - d. all would have a bout the same level of working capital.

4. The three basic motives for holding cash are the transactions demand, the theoretical demand and the precautionary demand.

- B*
- A. True
 - B. False

5. In the past few years, the ability of a firm to control its float has increased.

- B*
- A. True
 - B. False

6. A firm's inventory conversion period is 35 days, its receivables collection period is 10 days, and its payables deferral period is 15 days. How long is the firm's cash collection cycle?

- B*
- a. More than 45 days.
 - b. Between 15 and 45 days.
 - c. Between negative 15 and positive 15 pays.
 - d. Between negative 15 and negative 45 days.
 - e. We do not have enough information to answer this question.

7. List two disadvantages of credit scoring models?

uses past, not current
need large sample to create
less useful for businesses

8. What are safety stocks?

level of inventory that company will not drop below, buffer

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?

- E**
- 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**
- a. True**
 - b. False

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

- B**
- 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 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.

D 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**
- a. True**
 - b. False