**Corporate Finance**

**Tutorial**

**Homework:**

**Working Capital**

  **Short-Term Financing**

Following are 20 questions, each worth five points. For the Multiple Choice questions, select the answer you think is most correct.

**Working Capital: Chapter 26**

***Consider the following information for the question(s) below.***

Hammond Motors had sales of $35 million in 2009 with a cost of goods sold of $20 million. A simplified balance sheet for Hammond appears below (amounts in $ million):

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Assets** |  |  | **Liabilities and Equity** |  |
| Cash | 1.6 |  | Accounts Payable | 1.8 |
| Accounts Receivable | 4.2 |  | Notes Payable | 3.2 |
| Inventory | 3 |  | Accruals | 1.5 |
| Current Assets | 8.8 |  | Total Current Liabilities | 6.5 |
|  |  |  | Long-term Debt | 4 |
| Net Property, Plant and Equipment | 8.2 |  | Total Liabilities | 10.5 |
|  |   |  | Stockholders' Equity | 6.5 |
| Total Assets | 17 |  | Total Liabilities and Stockholders' Equity | 17 |

1) Hammond's net working capital in 2009 is closest to:

A) $2.3 million

B) $3.8 million

C) $6.5 million

D) $10.5 million

2) Hammond's cash conversion cycle in 2009 is closest to:

A) 22 days

B) 44 days

C) 58 days

D) 66 days

3) The difference between a firm's operating cycle and its cash cycle is:

A) there is no difference between the cash and operating cycles.

B) its account receivable days.

C) its accounts payable days.

D) its inventory days.

4) The cash conversion cycle (CCC)is defined as:

A) Inventory Days + Accounts Receivable Days - Accounts Payable Days.

B) Inventory Days - Accounts Receivable Days - Accounts Payable Days.

C) Inventory Days + Accounts Receivable Days *+* Accounts Payable Days.

D) Inventory Days + Accounts Payable Days - Accounts Receivable Days.

***Consider the following information for the question(s) below.***

Luther Industries had sales of $980 million and a cost of goods sold of $560 million in 2006. A simplified balance sheet for the firm appears below:

Luther Industries

Balance Sheet

As of December 31, 2006

(millions of dollars)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Assets** |  |  | **Liabilities and Equity** |  |
| Cash | 25 |  | Accounts payable | 60 |
| Accounts receivable | 85 |  | Notes payable | 425 |
| Inventory | 90 |  | Accruals | 45 |
| Total current assets | 200 |  | Total current liabilities | 530 |
| Net plant, property, and equipment | 6100 |  | Long term debt | 2725 |
| Total assets | 6300 |  | Total liabilities | 3255 |
|  |  |  | Common equity | 3045 |
|  |  |  | Total liabilities and equity | 6300 |

5) Luther's Inventory days is closest to:

A) 32 days

B) 59 days

C) 39 days

D) 42 days

6) Luther's Accounts Receivable days is closest to:

A) 42 days

B) 39 days

C) 32 days

D) 59 days

7) Luther's Accounts Payable days is closest to:

A) 39 days

B) 32 days

C) 59 days

D) 42 days

8) Luther's cash conversion cycle is closest to:

A) 51 days

B) 66 days

C) 71 days

D) 129 days

9) Calculate the number of days in Luther's Operating Cycle.

10) Collection float is made up of all of the following EXCEPT:

A) disbursement float.

B) processing float.

C) mail float.

D) availability float.



**Short-Term Financing: Chapter 27**

11) The effective annual rate for Taggart if they choose alternative #2 is closest to:

A) 13.0%

B) 13.9%

C) 18.8%

D) 27.0%

12) The effective annual rate for Taggart if they choose alternative #3 is closest to:

A) 13.9%

B) 18.8%

C) 27.0%

D) 27.9%

13) Which alternative should Taggart choose?

A) Alternative #1 since it has the lowest EAR

B) Alternative #2 since it has the lowest EAR

C) Alternative #3 since it has the lowest EAR

D) Alternative #2 since it has the highest actual rate

14) A loan agreement that requires the firm to pay interest on the loan and pay back the principal in one lump sum at the end of the loan is called:

A) a short-term mortgage loan.

B) a single, end-of-period-payment loan.

C) a bridge loan.

D) a line of credit.

15) A short-term bank loan that is often used until a firm can arrange for long-term financing is called:

A) a committed line of credit.

B) a short-term mortgage loan.

C) a bridge loan.

D) a single, end-of-period-payment loan.

16) A written, legally binding agreement that obligates the bank to lend a firm any amount up to a stated maximum, regardless of the financial condition of the firm (unless the firm is bankrupt) as long as the firm satisfies any restrictions in the agreement is called:

A) a bridge loan.

B) a single, end-of-period-payment loan.

C) a short-term mortgage loan.

D) a committed line of credit.

17) Luther Industries is offered a $1 million dollar loan for four months at an APR of 9%. If this loan has an origination fee of 1%, then the effective annual rate (EAR) for this loan is closest to:

A) 12.0%

B) 12.6%

C) 4.1%

D) 13.8%

18) Luther Industries is offered a $1 million dollar loan for four months at an APR of 9%. If Luther's bank requires that the firm maintain a compensating balance equal to 10% of the loan amount in a non-interest bearing account, then the effective annual rate EAR for this loan is closest to:

A) 50.0%

B) 12.6%

C) 14.4%

D) 71.5%

19) Wyatt Oil has an issue of commercial paper with a face value of $10,000,000 and a maturity of three months. Wyatt received $9,800,000 when it sold the paper. The effect annual rate for this financing is closest to:

A) 5.6%

B) 6.6%

C) 7.2%

D) 8.4%

20) Galt Industries has issued four-month commercial paper with a $8 million face value. The firm netted $7,831,000 on the sale. The effect annual rate for this financing is closest to:

A) 5.6%

B) 6.6%

C) 7.2%

D) 8.4%