**Topic 13 Knowledge Check**

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| Points: | 32 |

Started on Jun 27 at 15:02

Your Submission:

Top of Form

1. Bookmark question for later

A firm purchased raw materials on June1st on credit, paid for the materials on June 10th, finished producing and sold the finished product on June 20th, and received payment on June 27th. How many days was the operating cycle?

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| * + 27   + 29   + 25   + 23 |
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1. Bookmark question for later

A working capital increase caused by an increase in inventory will be a cash inflow for the firm.

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| TrueFalse |
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1. Bookmark question for later

Which types of costs are associated with holding inventory?

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| * + Storage costs   + Purchasing costs   + Holding costs   + All of these choices   + None of these choices |
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1. Bookmark question for later

Suppose a firm made a payment for some products produced by your firm.  The check was mailed today.  Collection float is:

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| * + The amount of time it takes for the company to receive acknowledgement that the check has been sent.   + None of these choices.   + The amount of time it takes for the company to take the check to the bank.   + The amount of time it takes for the company to receive the check.   + The amount of time it takes for the company to spend the funds once the check has been processed. |
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1. Bookmark question for later

The longer a firm’s cash cycle the more cash the firm is required to hold in order to operate on a daily basis.

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| TrueFalse |
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1. Bookmark question for later

Which types of costs are not associated with holding inventory?

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| * + Storage costs   + Purchasing costs   + Opportunity costs   + Holding costs   + All of these are associated costs of holding inventory |
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1. Bookmark question for later

If firm A has a shorter cash cycle than firm B, then, holding everything else constant, firm A will hold less cash than firm B.

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| TrueFalse |
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1. Bookmark question for later

Which of the following principles is related to working capital management?

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| * + The cash cycle   + Selling on credit   + Buying on credit   + All of these choices   + None of these choices |
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1. Bookmark question for later

Buying inventory with cash might be beneficial because doing so allows firms to hold onto their cash longer.

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| TrueFalse |
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1. Bookmark question for later

A commonly used method to shorten float time is discount policy.

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| TrueFalse |
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1. Bookmark question for later

When an increase in inventory causes an increase in working capital, the firm will experience a cash outflow.

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| TrueFalse |
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1. Bookmark question for later

The amount of the reserve balance is always determined by the firm.

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| TrueFalse |
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1. Bookmark question for later

Cash policies could result in a loss of business because customers lack the freedom and flexibility of buying products on credit.

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| TrueFalse |
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1. Bookmark question for later

Why of the following is NOT a reason firms should carry cash?

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| * + Cash is needed to pay the firms bills   + All of these choices are reasons the firm should carry cash   + Cash is liquid   + The opportunity cost to holding cash is low |
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1. Bookmark question for later

The type of costs associated with a firm holding too much cash is opportunity costs.

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| TrueFalse |
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1. Bookmark question for later

A commonly used method for shortening the float time is electronic check processing.

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| TrueFalse |
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1. Bookmark question for later

A discount policy is a policy that provides a discount to customers if they pay for the products on the payment due date.

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| TrueFalse |
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1. Bookmark question for later

A discount policy provides a discount to customers for paying for products before the payment due date.

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| TrueFalse |
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1. Bookmark question for later

Which of the following is NOT an important part of managing accounts receivables?

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| * + All of these choices   + Setting credit terms   + Determining optimal inventory levels   + Providing a sound collection policy |
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1. Bookmark question for later

A discount policy 2/10 net 30 means that a discount of 2% is applied if a payment is received within 10 days and that the total bill is due in 30 days.

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| TrueFalse |
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1. Bookmark question for later

A firm with sound working capital management will carefully consider the float time of payments.

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| TrueFalse |
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1. Bookmark question for later

The cash required to run the daily operations of the firm is sometimes referred to as “Free” cash.

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| TrueFalse |
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1. Bookmark question for later

Suppose a firm was provided an option to purchase $100 of raw materials according to a 3/15 net 45 discount policy.  What is the 30 day interest rate in percent *in annual terms* on this effective loan? (round to the nearest hundredth: .00).



1. Bookmark question for later

Suppose a firm was provided an option to purchase $100 of raw materials according to a 2/15 net 45 discount policy.  What is the 30-day interest rate in percent in annual terms on this effective loan? (round to the nearest hundredth: .00).



1. Bookmark question for later

What is the cash cycle?

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| * + The speed of collecting cash from customers   + The amount of cash kept in banks   + The amount of time to regenerate cash   + The comparison of debt to cash |
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1. Bookmark question for later

Why is float important to understand?

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| * + To time cash expenditures   + To know how to keep the company profitable   + To determine when to buy fixed assets   + To know why the company needs cash |
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1. Bookmark question for later

What should a company do to manage its working capital?

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| * + Collect quickly and pay slowly.   + Maximize the use of long term investment.   + Keep a large cash balance.   + Depreciate assets more slowly. |
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1. Bookmark question for later

Company A wishes to keep 20% of its assets as cash. Company B keeps its cash balance at 5% of assets. Which of the following statements applies?

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| * + Company B invests in more working current assets.   + Company A uses better working capital management.   + Company B has a more conservative cash policy.   + Company A is less liquid than Company B. |
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1. Bookmark question for later

Company A offers trade credit of 2% 10 / net 30, and Company B offers trade credit at net 30. What can be said about the credit policies of each company?

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| * + Company A can attract more customers.   + Company B can attract more customers.   + Company B has a looser credit policy.   + Company A keeps more of its accounts receivable. |
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1. Bookmark question for later

Which of the following characterizes collection float?

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| * + Increased float indicates slower processing time.   + Liquidity is enhanced with longer float.   + Accounts receivable increase with shorter float.   + Longer float indicates good financial practices. |
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1. Bookmark question for later

Company A's inventory is larger than Company B's. Both companies are competitors and are about the same size. What does this difference mean from a working capital management standpoint?

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| * + Company A has more cash in hand.   + Company B might have higher inventory turnover.   + Company A has tighter credit.   + Company B has lower inventory float. |
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1. Bookmark question for later

In regards to accounts payable balances, which of the following is true?

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| * + Higher accounts payable is better than a lower balance.   + Increased accounts payable means faster collections.   + Paying off A/P as soon as possible is good policy.   + Paying off A/P on the last day due is good policy. |

Bottom of Form