Tutorial 10

#1:
Consider the following financial statement information for the Mediate Corporation:

Item	Beginning		Ending
Inventory	$9,780		$11,380
Accounts receivable	4,108		4,938
Accounts payable	7,636		7,927
Credit sales		$89,804	
Cost of goods sold		56,384	

Calculate the operating and cash cycles. How do you interpret your answer?

#2:
You've worked out a line of credit arrangement that allows you to borrow up to $50 million at any time. The interest rate is 0.64% per month. In addition, 5% of the amount that you borrow must be deposited in a non-interest-bearing account. Assume that your bank uses compound interest on its line of credit loans.

a. What is the effective annual interest rate on this lending arrangement?
b. Suppose you need $15million today and you repay it in six months. How much interest will you pay?

#3:
Each business day, on average, a company writes checks totaling $14,000 to pay its suppliers. The usual clearing time for the checks is four days. Meanwhile, the company is receiving payments from its customers each day, in the form of checks, totaling $26,000. The cash from the payments is available to the firm after two days.

a. Calculate the company's disbursement float, collection float, and net float.
b. How would your answer to part (a) change if the collected funds were available in one day instead of two?

#4:
The Arizona Bay Corporation sells on credit terms of net 30. Its accounts are, on average, 8 days past due. If annual credit sales are $8.4 million, what is the company's balance sheet amount in account receivable?

#5:
A Firm offers terms of 1/10, net 35. What effective annual interest rate does the firm earn when a customer does not take the discount? Without doing any calculations, explain what will happen to this effective rate if:
a. This discount is changed to 2%.
b. The credit period is increased to 60 days.
c. The discount period is increased to 15 days.

#6:
The Harrington Corporation is considering a change in its cash-only policy. The new terms would be net one period. Based on the following information, determine if Harrington should proceed or not. The required return is 2.5 percent per period.

	Current Policy	New Policy
Price per unit	$91	$94
Cost per unit	$47	$47
Unit sales per month	3,850	3,940

#7:
a. For Qn #6, what is the break-even quantity for the new credit policy?
b. For Qn #6, what is the break-even price per unit that should be charged under the new credit policy assuming that the sales figure under the new policy is 4,100 units and all other values remain the same?