4.04 Working Capital and Liquidity

Question 1
Which of the following factors most likely results in a drag, rather than a pull, on a company's liquidity position?
A. Delinquent customer payments
B. Reduced limits on lines of credit
C. Payments to vendors before the due date

Question 2
A company has a quick ratio of 0.95. If the company reports current liabilities of HKD400 million, deferred tax liabilities due in 14 months of
HKD100 million, and inventory of HKD120 million, its current ratio is closest to:
A. 0.65
B. 0.80
C. 1.25

Question 3
A company has CAD 50 million of short-term liquidity needs. The company has the following assets and liabilities:
- CAD 20 million in marketable securities, which can be sold with a 0.5% brokerage cost
- CAD 35 million in bonds, able to be liquidated at 2.5% cost
- CAD 50 million in accounts payable with terms of 2/10, net 60

To cover its liquidity needs at lowest cost, which of the following strategies would be most appropriate for the company to use?
A. Issue new equity in secondary offering
B. Sell all the marketable securities and sell bonds
C. Sell all the marketable securities and delay accounts payable

Question 4
Which of the following situations most likely creates a pull on a company's liquidity?
A. Major suppliers change payment terms from 60 days to 30 days.
B. Obsolete inventory accumulates beyond one normal sales cycle.
C. Interest rates for sources of short-term funding increase by 100 basis points.

Question 5
An analyst gathers the following information about a company:

Selected Financial Data	
(CNY *millions*)	
Credit sales	15,000
Cost of goods sold	12,000
Accounts receivable	2,000
Inventory, beginning balance	1,500
Inventory, ending balance	1,000
Accounts payable	3,000

Based on this information, the company's inventory turnover ratio is closest to:
A. 8.0
B. 9.6
C. 12.0

Question 6
An analyst gathers the following data for a company:

Selected Financial Data	
(CAD *millions*)	
Credit sales	12,000
Cost of goods sold	9,000
Accounts receivable	5,000
Inventory, beginning balance	1,400
Inventory, ending balance	1,000
Accounts payable	3,500

Based on this information, the days of inventory on hand (DOH) is closest to:
A. 36.5
B. 40.6
C. 48.7

Question 7
An analyst gathers the following data for a company for 20X1:

Selected Financial Data	(NZD *millions*)
Credit sales	25,000
Cost of goods sold	21,000
Accounts receivable: beginning balance	3,000
Accounts receivable: ending balance	3,500

Based on this information, the company's day's sales outstanding (DSO) in 20X1 is *closest* to:

A. 47.5
B. 51.1
C. 68.5

Question 8
An analyst is evaluating the performance of inventory management across several manufacturing companies. The analyst gathers the following data:

Selected Items from Financial Statements (RUB *millions*)				
	FY17		FY18	
Company	Cost of Goods Sold	Average Inventory Balance	Cost of Goods Sold	Average Inventory Balance
X	60.0	10.0	60.4	9.5
Y	55.0	11.0	55.2	10.7
Z	70.0	9.0	70.0	9.4
Industry Average	61.7	10.0	61.9	9.9

Based on the data, and assuming all companies manufacture the same product, which of the following best describes the improvements in the number of days of inventory (DOH) from the previous year?
A. Company X shows the most improvement.
B. Company Z shows more improvement than Company Y.
C. The industry average shows more improvement than Company Y.

Question 9
An analyst is evaluating the performance of three manufacturers with the following information:

	20X1 ($ *millions*)		
Company	Cost of Goods Sold	Inventory Beginning Balance	Inventory Ending Balance
X	6.0	1.4	1.4
Y	7.3	2.2	1.8
Z	5.0	1.8	1.4

Which company has the highest inventory turnover?
A. Company X
B. Company Y
C. Company Z

Question 10
An analyst gathers the following data for a company:

Selected Financial Data	(ZAR *millions*)
Credit sales	10,000
Cost of goods sold	8,000
Inventory: beginning balance	1,600
Inventory: ending balance	1,800
Accounts payable: beginning balance	950
Accounts payable: ending balance	1,100

Based on this information, days payable outstanding (DPO) is closest to:
A. 45.6
B. 46.8
C. 49.0

Question 11
All else being equal, which of the following changes to pulls and drags on liquidity most likely decreases a company's liquidity?
A. Increased pulls and drags
B. Decreased pulls and drags
C. Decreased pulls and increased drags

Question 12
An analyst gathers the following information for 20X1 for a Brazilian company (in BRL millions):

Credit sales	135
Cost of goods sold (COGS)	108
Purchases	127
Accounts receivable	12
Beginning inventory balance	15
Ending inventory balance	17
Accounts payable	8

If the average length of the cash conversion cycle for the industry is 58 days, then the cash conversion cycle for the company is most likely:
A. better than that of the industry.
B. the same as that of the industry.
C. worse than that of the industry.

Question 13
All else equal, a firm increasing its accounts receivables turnover will most likely:

A. decrease its operating cycle.
B. increase its days of sales outstanding.
C. increase its ending accounts receivables.

Question 14
A company improved its operating cycle this fiscal year. If the company significantly increased its days of inventory on hand (DOH) over the same period, then the company most likely decreased its:
A. days payable outstanding (DPO).
B. days of sales outstanding (DSO).
C. accounts receivables turnover ratio.

Question 15
A consultant is evaluating several companies and has collected the following information for the fiscal year:

	20X1 ($ *millions*)		
Company	Credit Sales	Cost of Goods Sold	Accounts Receivable Average Balance
1	8.0	6.0	2.2
2	10.0	7.3	4.0
3	7.0	5.0	2.3

Which company has the best accounts receivable turnover?
A. Company 1
B. Company 2
C. Company 3

Question 16
Which of the following factors is most likely considered a drag rather than a pull on a company's liquidity position?
A. Central bank tightening credit
B. Accelerating payments to vendors
C. Lenders reducing company credit lines

Question 17
Which of the following events most likely creates a drag on liquidity for a business?
A. A supplier has reduced credit limits for purchases made by the business.
B. Tightened credit conditions have raised the borrowing costs on new short-term loans.
C. A bank has requested a partial repayment on a line of credit after a covenant violation.

Question 18
Companies can most likely shorten their cash conversion cycle and generate funds internally by increasing days of:

A. inventory.
B. accounts payable.
C. accounts receivable.

Question 19
All else being equal, which of the following events most likely improves a company's liquidity position?
A. Inventory decreases relative to sales
B. Accounts receivable increase relative to sales
C. Accounts payable decrease relative to inventory

Question 20
A company has short-term liquidity needs of €50 million. The following sources of liquidity are available:

Liquidity source	(€ millions)
Accounts payable with terms of 2/10 net 60	25
Accounts receivable sold to a factor at a 3.5% discount	40
Bonds with a 3% liquidation cost	30

To cover the company's liquidity needs at the lowest cost, which of the following strategies would least likely be useful?
A. Sell bonds
B. Delay accounts payable
C. Sell accounts receivable

Question 21
An analyst is evaluating several companies and has compiled the following information:

($ *millions*)	20X1		20X2	
Company	Credit Sales	Accounts Receivable	Credit Sales	Accounts Receivable
1	8.0	0.8	8.8	1.0
2	10.0	1.1	11.0	1.2
3	7.0	0.5	7.7	0.5

From 20X1 to 20X2, which company improved the most in days sales outstanding?
A. Company 1
B. Company 2
C. Company 3

Question 22
A firm increasing its number of days of payables will most likely experience:
A. fewer days in the cash conversion cycle .
B. the same number of days in the cash conversion cycle.
C. more days in the cash conversion cycle.

Question 23
Which of the following factors will most likely result in a pull, rather than a drag, on a company's liquidity position?
A. Accelerating payments to suppliers
B. Increasing levels of obsolete inventory
C. Slower collection of accounts receivable

Question 24
An analyst gathers the following information about three companies:

	Company X	Company Y	Company Z
Days of inventory on hand	70	72	68
Days of sales outstanding	35	37	35
Days of payables outstanding	27	13	22

The company with the shortest cash conversion cycle is most likely:
A. Company X.
B. Company Y.
C. Company Z.

Question 25
An analyst gathers the following data for a company:

Selected Financial Data	(TRY *millions*)
Credit sales	29,000
Cost of goods sold	24,000
Accounts receivable: beginning balance	8,000
Accounts receivable: ending balance	6,500

Based on this information, the accounts receivable turnover is closest to:
A. 3.3
B. 4.0
C. 4.5