Coursera, Foundations of Management Specialization

Operational Finance: Building a Robust Business

Prof. Miguel Antón

Quiz 3 Answers & Explanations

1. When we forecast receivables, inventory and payables:

    a) We should not take into account operational ratios.
    b) It's better to use the most recent ratios.
    c) We should use the initially theoretical ratios.
    d) It doesn't really matter which ratios we use, the real or the policies.

Answer: The correct answer is b). The most accurate forecast will be the one in which we use the most recent ratios: it is the closest we have.

2. What is NFO?

    a) NFO means Negative Financing Obligations.
    b) NFO means Need of Funds for Operations, and is a liability.
    c) NFO is Normal Fund Obligations, and is an asset.
    d) NFO is Need of Funds for Operations, and is an asset.

Answer: The correct answer is d). NFO is Need of Funds for Operations, which is an asset that has to be financed.

3. What is Working Capital?

    a) WC is the capital needed to fund operations.
    b) WC is the capital used to finance the fixed assets.
    c) WC is the long-term funding available to finance NFO.
    d) WC is the difference between NFO and long-term debt.

Answer: The correct answer is c). WC is the long-term funding available to finance NFO once the fixed assets have been financed.

4. Working Capital is defined as:

    a) Long-term debt + Equity - Fixed Assets, and not Current Assets – Current Liabilities.
    b) Short-term debt + Equity - Long term Assets.

c) Current Liabilities - Current Assets.
d) Long-term debt + Equity - Fixed Assets, or Current Assets – Current Liabilities.

Answer: The correct answer is d). WC = LT Debt + Equity – FA, or Current Assets – Current Liabilities.

5. Which of the two definitions of Working Capital is more intuitive?

   a) Current Assets - Current Liabilities, because current means for working.
   b) LT Debt + Equity - FA because it takes into account the FA.
   c) LT Debt + Equity - FA, because the definition CA - CL makes you think it is an asset, when in fact it's a liability, a source of capital.
   d) CA - CL, because it's simpler.

Answer: The correct answer is c). Both definitions are correct (deliver the same number), but Current Assets – Current Liabilities can make you think that it is an *asset*, when it's really a source of capital (a liability). Current Assets – Current Liabilities can also make you think that it is very volatile (because it says *current*), when it is actually pretty stable.

6. If sales are €200 and NFO is 5% of sales, and payables is €30 and inventory €20, then days of receivables is:

   a) 90 days
   b) 65 days
   c) 36 days
   d) 25 days

Answer: The correct answer is b). If NFO is 5% of sales, then NFO = €10. If NFO = REC + INV – PAY, then REC = NFO – INV + PAY = €10 - €20 + €30 = €20. If receivables is €20 and annual sales are €200, then days of receivable are 360/10 = 36 days.

7. A good diagnosis has to be:

   a) Concise
   b) Brief
   c) Concrete
   d) Primary

e) Clear

Answer: The correct answer is a, b, c & e. See video lecture 6.

8. The diagnosis of Polypanel's problem is that:

   a) There is a deterioration of Operational Ratios.
   b) The credit needed grows.
   c) There is not enough long-term debt.
   d) The NFO grows faster than the WC.

Answer: The correct answer is d). Although the other answers are partially correct, the clear diagnosis of the problem is that NFO grows faster than the WC, and that is why the need more and more credit.

9. A good solution to this problem can be to:

   a) Increase long-term debt, as it will increase the working capital.
   b) Improve margins.
   c) Get more shareholders to increase capital.
   d) Reduce fixed assets.

Answer: The correct answer is b). The other three answers only postpone the problem, as they do not change the slope of Working Capital.

10. A company with sales of €250 and NFO of €50, with a Net Income of €25 can grow sustainably only up to:

   a) 25%
   b) 100%
   c) 50%
   d) 250%

Answer: The correct answer is b). Sustainable growth = ROS / (NFO% - ROS). ROS is Net Income over sales = €25/€250 = 10%. NFO % of sales = €50/€250 = 20%. Thus, g = 10/(20-10) = 100%.

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11. If the bank charges 6% interest, days of suppliers are 30, and the supplier offers me an early payment (0 days) discount of 0.5%, then:

    a) I should not take the discount, and use the credit from the bank.
    b) I should take the discount, and use the credit from the bank, as the bank is cheaper.
    c) I am indifferent between using credit and taking the discount from the supplier, because the cost is the same.
    d) I should take the discount, and not use the credit from the bank, as both are costly.

Answer: The correct answer is c). An early payment discount for 30 days of 0.5% is equivalent to 0.5% * 12 months = 6%, which is the same as the bank cost, so I'm indifferent between getting financing from the bank or from the supplier.