# Module 2 Practice Quiz 2

**5/5** points earned (100%)

Excellent!

Retake

[Course Home](https://www.coursera.org/learn/corporate-finance/home/welcome)

Correct

1 / 1 points

1. Consider the following income statement and balance sheet to answer the question below.

|  |  |  |  |
| --- | --- | --- | --- |
| Revenue | 35000 |  |  |
| COGS | 25000 |  |  |
| SG&A | 7500 |  |  |
| EBIT | 2500 |  |  |
|  |  |  |  |
| Cash | 150 | Short term debt | 1500 |
| Inventory | 2000 | Accounts payable | 2200 |
| Receivables | 2500 | \_\_\_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_ |
| Current Assets | 4650 | Current Liabilities | 3700 |

The company's collection period is \_\_\_\_\_\_\_\_\_\_\_\_\_\_.

1. 45 days
2. 29 days
3. 7 days
4. **26 days**

**Correct Response**

Collection period = Receivables/(Revenues/365) = 2500/(35000/365)

Correct

1 / 1 points

2. Consider the following income statement and balance sheet to answer the question below.

|  |  |  |  |
| --- | --- | --- | --- |
| Revenue | 35000 |  |  |
| COGS | 25000 |  |  |
| SG&A | 7500 |  |  |
| EBIT | 2500 |  |  |
|  |  |  |  |
| Cash | 150 | Short term debt | 1500 |
| Inventory | 2000 | Accounts payable | 2200 |
| Receivables | 2500 | \_\_\_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_ |
| Current Assets | 4650 | Current Liabilities | 3700 |

Days in inventory are \_\_\_\_\_\_\_\_\_\_\_.

1. 30 days
2. 27 days
3. 20 days
4. **23 days**

**Correct Response**

Days in inventory = Inventory/((COGS + SGA)/365) = 2000/(32500/365)

Correct

1 / 1 points

3. Consider the following income statement and balance sheet to answer the question below.

|  |  |  |  |
| --- | --- | --- | --- |
| Revenue | 35000 |  |  |
| COGS | 25000 |  |  |
| SG&A | 7500 |  |  |
| EBIT | 2500 |  |  |
|  |  |  |  |
| Cash | 150 | Short term debt | 1500 |
| Inventory | 2000 | Accounts payable | 2200 |
| Receivables | 2500 | \_\_\_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_ |
| Current Assets | 4650 | Current Liabilities | 3700 |

The company's cash conversion cycle is \_\_\_\_\_\_\_\_\_\_\_.

1. 18 days
2. 48 days
3. 21 days
4. **25 days**

**Correct Response**

You also need to compute the average payable period = Payables / (COGS + SGA)/365) = 2200/ (32500/365) = 25 days. Thus, the conversion cycle is 26 + 23 – 24 = 25 days.

Correct

1 / 1 points

4. Which of the following options is not correct?

1. **Selling off (securitizing) receivables will increase cash conversion cycles.**

**Correct Response**

If a company sells off receivables, the amount of receivables in the balance sheet decrease, and thus, the cash conversion cycle goes down.

1. The cash conversion cycle measures the number of days that it takes for a company to generate cash out of its working capital.
2. Increasing payables provides cash to companies and thus reduces the cash conversion cycle.
3. Companies with shorter cash conversion cycles typically hold less inventory.

Correct

1 / 1 points

5. True or false?

Investments in working capital increase current assets, but they reduce a company's cash flow from operations.

1. **True**

**Correct Response**

Increasing items such as inventory and receivables tie up cash, and thus, cash flow goes down. Increases in working capital enter with a negative sign in companies’ cash flow statements.

1. False