Homework 9

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Chapter 15

1. In general, the more net working capital a company has **the lower its risk**.
2. In general, the less net working capital a company has **the greater the risk**.
3. Calculation of a firm's average collection period is the same as calculating the **accounts receivable cycle**.
4. The time between when the firm pays its suppliers and when it collects money from its customers is known as the **cash conversion cycle**.
5. One type of investment that <u>would not be suitable</u> for marketable securities would be **mortgages**.
6. Assume net sales of $1,200,000 and cost of goods sold of $900,000. Determine the average investment in accounts receivable, inventories, and accounts payable. What would be the net financing need considering only these three accounts?
    1. Inventory period = Inventory/(COGS/365) –> $55 = \frac{I}{\frac{900000}{365}}$ –> $I = 135616.44$
    2. Receivables period = AR/(Sales/365) –> $35 = \frac{AR}{\frac{1200000}{365}}$ –> $AR = 115068.49$
    3. Payment period = AP/(COGS/365) –> $40 = \frac{AP}{\frac{900000}{365}}$ –> $AP = 98630.14$
    4. Net financing = AR + Inventory – AP –> $115068.49 + 135616.55 - 98630.14 = 152054.79$
7. A goal of a company's cash management policy is to **minimize cash requirement**.
8. 5 C's of credit analysis
    1. Character – credit history
    2. Capacity – debt-to-income ratio
    3. Capital – money
    4. Collateral – assets
    5. Conditions – purpose of the loan