

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 would not be suitable 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 = $\text{Inventory}/(\text{COGS}/365) \rightarrow 55 = \frac{I}{\frac{900000}{365}} \rightarrow I = 135616.44$
 2. Receivables period = $\text{AR}/(\text{Sales}/365) \rightarrow 35 = \frac{AR}{\frac{1200000}{365}} \rightarrow AR = 115068.49$
 3. Payment period = $\text{AP}/(\text{COGS}/365) \rightarrow 40 = \frac{AP}{\frac{900000}{365}} \rightarrow AP = 98630.14$
 4. Net financing = $AR + \text{Inventory} - AP \rightarrow 115068.49 + 135616.55 - 98630.14 = 152054.79$
7. A goal of a company's cash management policy is to **reduce the need to borrow**.
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