Student name:\_\_\_\_\_\_\_\_\_\_

**MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.  
1)** Net working capital is defined as the:

1) \_\_\_\_\_\_

A) current assets of a business.   
 B) difference between current assets and current liabilities.  
 C) present value of short-term cash flows.  
 D) difference between all assets and liabilities.  
 E) difference between total current assets and cash.

**2)** Which one of the following actions is a source of cash?

2) \_\_\_\_\_\_

A) An increase in accounts receivable   
 B) An increase in fixed assets  
 C) A decrease in long-term debt  
 D) The payment of a cash dividend  
 E) An increase in accounts payable

**3)** Which one of the following actions is a use of cash?

3) \_\_\_\_\_\_

A) Selling goods from inventory   
 B) Sale of a marketable security held by the firm  
 C) Submitting taxes to the government  
 D) Obtainment of a long-term loan  
 E) Collection of a past-due accounts receivable

**4)** Assume the current ratio is greater than 1.0. Which one of the following actions will cause an increase in net working capital?

4) \_\_\_\_\_\_

A) Using cash to pay an accounts payable   
 B) Using cash to pay a long-term debt  
 C) Selling inventory at cost  
 D) Collecting an accounts receivable  
 E) Using a long-term loan to buy inventory

**5)** Assume the current ratio is greater than 1.0. Which one of the following actions will cause a decrease in net working capital?

5) \_\_\_\_\_\_

A) Selling inventory at a profit   
 B) Collecting an accounts receivable  
 C) Paying a payment on a long-term debt  
 D) Selling a fixed asset for book value  
 E) Paying an accounts payable

**6)** Which one of the following actions is a use of cash?

6) \_\_\_\_\_\_

A) An increase in borrowing   
 B) An increase in operating cash flow  
 C) A decrease in accounts payable  
 D) An increase in notes payable  
 E) A decrease in inventory

**7)** Which of the following actions results in a use of cash?

7) \_\_\_\_\_\_

A) A decrease in a liability only   
 B) An increase in an asset only  
 C) An increase in retained earnings only  
 D) Both an increase in an asset and an increase in retained earnings  
 E) Both a decrease in a liability and an increase in an asset

**8)** When \_\_\_\_\_\_\_\_, cash increases.

8) \_\_\_\_\_\_

A) long-term debt decreases   
 B) equity decreases  
 C) current liabilities decrease  
 D) accounts payable increases  
 E) fixed assets increase

**9)** If a firm needs to increase its cash holdings it could:

9) \_\_\_\_\_\_

A) increase fixed assets.   
 B) decrease accounts payable.  
 C) decrease long-term debt.  
 D) increase other current assets.  
 E) increase current liabilities.

**10)** When \_\_\_\_\_\_\_\_, cash decreases.

10) \_\_\_\_\_\_

A) current assets other than cash increase   
 B) fixed assets decrease  
 C) current liabilities increase  
 D) retained earnings increase  
 E) long-term debt increases

**11)** The cash cycle is defined as the time between:

11) \_\_\_\_\_\_

A) the arrival of inventory and cash collected from receivables.   
 B) selling a product and paying the supplier of that product.  
 C) selling a product and collecting the accounts receivable.  
 D) cash disbursements and cash collection for an item.  
 E) the sale of inventory and cash collection.

**12)** The cash cycle equals the:

12) \_\_\_\_\_\_

A) inventory period plus the accounts receivable period.   
 B) change in net working capital divided by daily sales.  
 C) operating cycle plus the accounts payable period.  
 D) operating cycle minus the inventory period.  
 E) operating cycle minus the accounts payable period.

**13)** A firm’s operating cycle will decrease if the firm:

13) \_\_\_\_\_\_

A) pays accounts payable faster.   
 B) discontinues the discount given for early payment of an accounts receivable.  
 C) decreases the inventory turnover rate.  
 D) collects accounts receivable faster.  
 E) increases the accounts payable turnover rate.

**14)** A firm’s operating cycle will decrease if the firm decreases the:

14) \_\_\_\_\_\_

A) days' sales in inventory.   
 B) days in accounts payable.  
 C) cash cycle by increasing the accounts payable period.  
 D) accounts receivable turnover rate.  
 E) speed at which inventory is sold.

**15)** Which one of the following actions will not impact the operating cycle?

15) \_\_\_\_\_\_

A) Decreasing the payables turnover from 7 times to 6 times   
 B) Increasing the days' sales in receivables  
 C) Decreasing the inventory turnover rate  
 D) Increasing the average receivables balance  
 E) Decreasing the credit repayment times for the firm’s customers

**16)** A firm can decrease its cash cycle by:

16) \_\_\_\_\_\_

A) increasing the cash discount offered to customers who pay their accounts early.   
 B) increasing the percentage of customers paying with credit rather than cash.  
 C) increasing the amount of raw materials kept in inventory.  
 D) paying your suppliers earlier to receive a discount on your purchases.  
 E) increasing your inventory to prevent stock-outs.

**17)** The cash cycle will decrease as a result of increasing the:

17) \_\_\_\_\_\_

A) payables turnover.   
 B) days' sales in inventory.  
 C) operating cycle.  
 D) inventory turnover rate.  
 E) accounts receivable period.

**18)** In the past, Rodriquez Manufacture manufactured products and held them in inventory until they could be sold. The firm is changing its processes and will now only produce a product upon receiving an order from a customer. All else equal, this change will:

18) \_\_\_\_\_\_

A) increase the operating cycle.   
 B) lengthen the accounts receivable period.  
 C) shorten the accounts payable period.  
 D) decrease the cash cycle.  
 E) decrease the inventory turnover rate.

**19)** Which one of the following statements concerning the cash cycle is correct?

19) \_\_\_\_\_\_

A) The cash cycle is equal to the operating cycle minus the inventory period.   
 B) A negative cash cycle is actually preferable to a positive cash cycle.  
 C) Granting credit to slower paying customers tends to decrease the cash cycle.  
 D) The cash cycle plus the accounts receivable period is equal to the operating cycle.  
 E) The most desirable cash cycle is the one that equals zero days.

**20)** Which one of the following statements concerning the cash cycle is correct?

20) \_\_\_\_\_\_

A) The longer the cash cycle, the more likely a firm will need external financing.   
 B) Increasing the accounts payable period increases the cash cycle.  
 C) A positive cash cycle is preferable to a negative cash cycle.  
 D) The cash cycle can exceed the operating cycle if the payables period is equal to zero.  
 E) Adopting a more liberal accounts receivable policy will tend to decrease the cash cycle.

**21)** If a firm delays paying its suppliers by an additional ten days, then:

21) \_\_\_\_\_\_

A) its payables turnover rate will increase.   
 B) it should require less bank financing of its daily operations.  
 C) its cash cycle will increase by ten days.  
 D) its operating cycle will increase by ten days.  
 E) its stock-out costs will rise.

**22)** Given a fixed level of sales and a constant profit margin, an increase in the accounts payable period can result from:

22) \_\_\_\_\_\_

A) an increase in the cost of goods sold account value.   
 B) an increase in the ending accounts payable balance.  
 C) an increase in the cash cycle.  
 D) a decrease in the operating cycle.  
 E) a decrease in the average accounts payable balance.

**23)** A firm’s accounts receivable policy is generally set by the:

23) \_\_\_\_\_\_

A) purchasing manager.   
 B) credit manager.  
 C) controller.  
 D) production manager.  
 E) payables manager.

**24)** The manager typically responsible for applying payments to customers’ accounts is the:

24) \_\_\_\_\_\_

A) controller.   
 B) payables manager.  
 C) credit manager.  
 D) purchasing manager.  
 E) production manager.

**25)** The \_\_\_\_\_\_\_\_ is the length of time between the acquisition of inventory and the collection of receivables.

25) \_\_\_\_\_\_

A) operating cycle   
 B) inventory period  
 C) accounts receivable period  
 D) accounts payable period  
 E) cash cycle

**26)** The \_\_\_\_\_\_\_\_ is the length of time between the acquisition and sale of inventory.

26) \_\_\_\_\_\_

A) operating cycle   
 B) inventory period  
 C) accounts receivable period  
 D) accounts payable period  
 E) cash cycle

**27)** The length of time between the sale of inventory and the collection of cash from receivables is called the:

27) \_\_\_\_\_\_

A) operating cycle.   
 B) inventory period.  
 C) accounts receivable period.  
 D) accounts payable period.  
 E) cash cycle.

**28)** The length of time between the acquisition of inventory by a firm and the payment by the firm for that inventory is called the:

28) \_\_\_\_\_\_

A) operating cycle.   
 B) inventory period.  
 C) accounts receivable period.  
 D) accounts payable period.  
 E) cash cycle.

**29)** The length of time between the payment for inventory and the collection of cash from receivables is called the:

29) \_\_\_\_\_\_

A) operating cycle.   
 B) inventory period.  
 C) accounts receivable period.  
 D) accounts payable period.  
 E) cash cycle.

**30)** If the average accounts receivable that a firm holds decreases without any decrease in credit sales, the operating cycle will:

30) \_\_\_\_\_\_

A) remain constant because sales remained constant.   
 B) remain constant because the change will only affect the cash cycle.  
 C) decrease because the days’ sales outstanding will decrease.  
 D) increase because the accounts receivable turnover will decrease.  
 E) decrease because the accounts receivable turnover will decrease.

**31)** Flexible short-term financial policies tend to:

31) \_\_\_\_\_\_

A) maintain low accounts receivable balances.   
 B) support few investments in marketable securities.  
 C) minimize the investment in inventory.  
 D) maintain large cash balances.  
 E) tightly restrict credit sales.

**32)** The short-term financial policy a firm adopts will be reflected in:

32) \_\_\_\_\_\_

A) the size of the firm’s investment in current assets.   
 B) the financing of current assets.  
 C) the financing of fixed assets.  
 D) both the size and the financing of current assets.  
 E) both the size and the financing of fixed assets.

**33)** Costs of the firm that rise with increased levels of investment in its current assets are called \_\_\_\_\_ costs.

33) \_\_\_\_\_\_

A) carrying   
 B) shortage  
 C) order  
 D) safety  
 E) trading

**34)** Costs of the firm that fall with increased levels of investment in its current assets are called \_\_\_\_\_ costs.

34) \_\_\_\_\_\_

A) carrying   
 B) shortage  
 C) debt  
 D) equity  
 E) payables

**35)** A restrictive short-term financial policy tends to:

35) \_\_\_\_\_\_

A) reduce future sales more than a flexible policy does.   
 B) grant credit to more customers.  
 C) incur more carrying costs than a flexible policy does.  
 D) encourage credit sales over cash sales.  
 E) reduce order costs as compared to a more flexible policy.

**36)** A firm that adopts a flexible short-term financial policy is more likely to have:

36) \_\_\_\_\_\_

A) lower carrying costs than shortage costs.   
 B) lower shortage costs than carrying costs.  
 C) stricter limits on credit sales than the average firm.  
 D) a relatively low level of current assets.  
 E) greater short-term financing needs than if the firm adopted a restrictive policy.

**37)** A flexible short-term financial policy:

37) \_\_\_\_\_\_

A) increases the likelihood that a firm will face financial distress.   
 B) incurs an opportunity cost due to the rate of return that applies to short-term assets.  
 C) advocates a smaller investment in net working capital than a restrictive policy does.  
 D) increases the probability that a firm will earn high returns on all its assets.  
 E) utilizes short-term financing to fund all the firm’s assets.

**38)** Noemi Swim Supply has a flexible short-term financing policy. Over the course of one year, the firm should expect to have some months that allow it to:

38) \_\_\_\_\_\_

A) repay all its debts.   
 B) invest in marketable securities.  
 C) reduce its total costs below the firm’s normal minimum total cost point.  
 D) finance all its assets with short-term loans.  
 E) earn high returns on all its current assets.

**39)** Shortage costs include all the following *except* the:

39) \_\_\_\_\_\_

A) opportunity costs related to a low return on assets.   
 B) order costs.  
 C) disruption of production schedules.  
 D) production setup costs.  
 E) lost sales.

**40)** Given a flexible financing policy, a growing firm generally has a permanent requirement for:

40) \_\_\_\_\_\_

A) both current and long-term assets.   
 B) long-term assets only.  
 C) short-term debt only.  
 D) both short- and long-term debt.  
 E) current assets and short-term debt.

**41)** If a firm’s accounts receivable period is 30 days, it will collect payment for \_\_\_\_\_ sales during the second quarter of a calendar year.

41) \_\_\_\_\_\_

A) December, January, and February   
 B) January, February, and March  
 C) February and March  
 D) February, March, and April  
 E) March, April, and May

**42)** Victory Marketing collects 30 percent of its sales in the month of sale, 55 percent in the month following the month of sale, and 13 percent in the second month following the month of sale. Given this, the company will collect \_\_\_\_\_ sales during the month of May.

42) \_\_\_\_\_\_

A) 30 percent of May   
 B) 55 percent of March  
 C) 13 percent of April  
 D) 55 percent of May  
 E) 13 percent of February

**43)** A manufacturing firm has a 90-day collection period. The firm produces seasonal merchandise and thus has the least sales during the first quarter of the year and the highest level of sales during the third quarter of the year. The firm maintains a relatively steady level of production which means that its cash disbursements are approximately equal in all quarters. The firm is most apt to face a cash-out situation in:

43) \_\_\_\_\_\_

A) the first quarter.   
 B) the second quarter.  
 C) the third quarter.  
 D) the fourth quarter.  
 E) any quarter, equally.

**44)** A financially solid firm is most likely to have a quarterly cash shortfall when it encounters a:

44) \_\_\_\_\_\_

A) period of relatively constant sales.   
 B) major fixed asset expenditure.  
 C) period of rising interest rates.  
 D) period of declining interest rates.  
 E) period of increased cash collections.

**45)** Which one of the following statements is true?

45) \_\_\_\_\_\_

A) The cumulative finance surplus requirement is computed prior to adjusting for the minimum cash balance.   
 B) A financially sound firm will always have a positive quarterly net cash flow.  
 C) A negative cumulative cash surplus indicates a borrowing need.  
 D) Most firms plan on maintaining a zero cash balance.  
 E) The minimum cash balance generally increases on a quarterly basis.

**46)** A cumulative cash deficit indicates a firm:

46) \_\_\_\_\_\_

A) has at least a short-term need for external funding.   
 B) is facing long-term financial distress.  
 C) will go out of business within the year.  
 D) is capable of funding all its needs internally.  
 E) is using its cash wisely.

**47)** A prearranged, short-term bank loan up to a specified limit, made on a formal or informal basis, is called a:

47) \_\_\_\_\_\_

A) letter of credit.   
 B) cleanup loan.  
 C) compensating balance.  
 D) line of credit.  
 E) roll-over.

**48)** A fraction of the available credit on a loan agreement, deposited by the borrower in a low or non-interest-bearing account is called a:

48) \_\_\_\_\_\_

A) compensating balance.   
 B) cleanup loan.  
 C) letter of credit.  
 D) line of credit.  
 E) roll-over.

**49)** A short-term loan that calls for the lender to hold the borrower's receivables as security is called:

49) \_\_\_\_\_\_

A) a compensating balance.   
 B) assigned receivables financing.  
 C) a letter of credit.  
 D) factored receivables financing.  
 E) a bond.

**50)** A type of short-term loan in which the borrower sells its receivables to the lender up-front, but at a discount to face value, is called:

50) \_\_\_\_\_\_

A) a compensating balance.   
 B) assigned receivables financing.  
 C) a letter of credit.  
 D) factored receivables financing.  
 E) a bond.

**51)** A short-term loan which is secured by inventory that is held in trust is referred to as:

51) \_\_\_\_\_\_

A) a blanket inventory lien.   
 B) a secured line of credit.  
 C) a banker’s acceptance.  
 D) a trust receipt financing arrangement.  
 E) field warehousing financing.

**52)** The most common means of financing a temporary cash deficit is a:

52) \_\_\_\_\_\_

A) long-term secured bank loan.   
 B) short-term secured bank loan.  
 C) short-term issue of corporate bonds.  
 D) long-term unsecured bank loan.  
 E) short-term unsecured bank loan.

**53)** A compensating balance:

53) \_\_\_\_\_\_

A) requirement generally applies to inventory-type loans.   
 B) is a means of paying for banking services received.  
 C) requirement is generally set equal to one percent of the amount borrowed.  
 D) decreases the cost of short-term bank financing.  
 E) refunds a portion of the borrower’s interest if a loan is repaid early.

**54)** Which one of the following statements is correct?

54) \_\_\_\_\_\_

A) A farmer generally uses trust receipt financing to finance operations during the growing season.   
 B) An auto dealer is most apt to use purchase order financing.  
 C) A drug store is most apt to use trust receipt financing.  
 D) Trust receipt financing is most applicable to large, easily identifiable types of inventory.  
 E) Blanket inventory lien financing is another term for purchase order financing.

**55)** Commercial paper is generally issued:

55) \_\_\_\_\_\_

A) by large firms.   
 B) for 190 days or less.  
 C) by commercial banks.  
 D) for 90 to 180 days.  
 E) at the prime rate offered by the firm’s bank.

**56)** Which party(parties) is(are) ultimately responsible for an invoice from a supplier that is subject to a bankers’ acceptance?

56) \_\_\_\_\_\_

A) The bank which issued the acceptance   
 B) The purchasing firm  
 C) The investors who purchased the banker’s acceptance  
 D) The vendor who issued the invoice  
 E) Both the bank and the purchasing firm jointly

**57)** Sierra Shoes reported sales of $23,000 and cost of goods sold of $12,400 for the year. The firm had a beginning inventory of $1,400 and an ending inventory of $1,000. What is the length of the inventory period?

57) \_\_\_\_\_\_

A) 19.2 days   
 B) 35.3 days  
 C) 67.7 days  
 D) 70.7 days  
 E) 1.9 days

**58)** Last year, Woodward’s had credit sales of $927,000 and cost of goods sold of $762,000. The beginning of the year inventory was $138,000 and the end of the year inventory was $154,300. If the accounts receivables average $87,400, what is the operating cycle?

58) \_\_\_\_\_\_

A) 88.23 days   
 B) 104.42 days  
 C) 78.60 days  
 D) 70.01 days  
 E) 92.09 days

**59)** Plume has sales of $1.62 million with costs of goods sold equal to 78 percent of sales. The average inventory is $369,000, accounts payable average $438,000, and receivables average $147,000. How long is the cash cycle?

59) \_\_\_\_\_\_

A) 13.19 days   
 B) 13.30 days  
 C) 17.29 days  
 D) 7.54 days  
 E) 11.77 days

**60)** Levy’s has sales of $23,000 and cost of goods sold equal to 54 percent of sales. The beginning accounts receivable balance is $3,200 and the ending accounts receivable balance is $1,800. How long on average does it take the firm to collect its receivables?

60) \_\_\_\_\_\_

A) 9.2 days   
 B) 40.0 days  
 C) 39.7 days  
 D) 92.0 days  
 E) 33.6 days

**61)** Battisti Design-Build has credit sales of $2,414,000, costs of goods sold of $750,000, and average accounts receivable of $728,000. How long does it take its credit customers to pay for their purchases?

61) \_\_\_\_\_\_

A) 110.1 days   
 B) 3.3 days  
 C) 84.7 days  
 D) 33.2 days  
 E) 12.1 days

**62)** Elevate has sales of $437,000 and average accounts payable of $44,000. The cost of goods sold is equivalent to 44.6 percent of sales. How long does it take the firm to pay its suppliers?

62) \_\_\_\_\_\_

A) 4.4 days   
 B) 36.8 days  
 C) 5.5 days  
 D) 82.4 days  
 E) 202.1 days

**63)** Battle’s had an average accounts payable balance of $1,000,000. Sales for the period were $13,900,000 and costs of goods sold were $8,600,000. If the operating cycle is 86 days, how long is the firm’s cash cycle?

63) \_\_\_\_\_\_

A) 13.3 days   
 B) 128.4 days  
 C) 76.8 days  
 D) 59.2 days  
 E) 43.6 days

**64)** A firm has inventory turnover of 15.7, receivables turnover of 20.2, and payables turnover of 14.6. How long is the cash cycle?

64) \_\_\_\_\_\_

A) 28.46 days   
 B) 16.32 days  
 C) 32.87 days  
 D) 13.08 days  
 E) 23.37 days

**65)** Kufour Marketing has an operating cycle of 54.7 days. It is planning some operational changes that are expected to decrease the accounts receivable period by 3.2 days and decrease the inventory period by 1.9 days. Accounts payable turnover is expected to increase from 9 to 14 times per year. If all these changes are adopted, what will be the firm’s new operating cycle?

65) \_\_\_\_\_\_

A) 56.0 days   
 B) 53.4 days  
 C) 49.6 days  
 D) 59.8 days  
 E) 52.2 days

**66)** On average, Keely Boards sells its inventory in 37 days, collects on its receivables in 3.4 days, and takes 35 days to pay for its purchases. What is the length of the firm's operating cycle?

66) \_\_\_\_\_\_

A) −1.4 days   
 B) 5.4 days  
 C) 33.6 days  
 D) 40.4 days  
 E) 41.6 days

**67)** Dattam’s Market has an inventory period of 48.6 days, an accounts payable period of 36.2 days, and an accounts receivable period of 29.3 days. Management is considering offering a discount of 5 percent if its credit customers pay for their purchases within 10 days. This discount is expected to reduce the receivables period by 17 days. If the discount is offered, the operating cycle will decrease from \_\_\_ days to \_\_\_ days.

67) \_\_\_\_\_\_

A) 28.3; 11.3   
 B) 77.9; 60.9  
 C) 28.3; 45.3  
 D) 77.9; 94.9  
 E) 54.2; 37.2

**68)** Hasan’s has an inventory turnover rate of 16, an accounts payable period of 47 days, and an accounts receivable period of 37 days. What is the length of the cash cycle?

68) \_\_\_\_\_\_

A) 32.81 days   
 B) −6.00 days  
 C) 2.00 days  
 D) 6.00 days  
 E) 12.81 days

**69)** Martinez Lighting has an inventory turnover of 15 and an accounts receivable turnover of 9. The accounts payable period is 51 days. What is the length of the cash cycle?

69) \_\_\_\_\_\_

A) 13.89 days   
 B) 14.07 days  
 C) 14.23 days  
 D) 18.79 days  
 E) 23.00 days

**70)** A firm currently has a cash cycle of 36 days. Assume the firm changes its operations such that it decreases its receivables period by 4 days, decreases its inventory period by 1 day, and decreases its payables period by 2 days. What will be the length of the cash cycle after these changes?

70) \_\_\_\_\_\_

A) 31 days   
 B) 35 days  
 C) 33 days  
 D) 37 days  
 E) 38 days

**71)** Castro & Kwon currently has a cash cycle of 43 days. Assume the firm changes its operations such that it decreases its receivables period by 2 days, increases its inventory period by 1 day, and increases its payables period by 3 days. What will be the length of the cash cycle after these changes?

71) \_\_\_\_\_\_

A) 38 days   
 B) 41 days  
 C) 39 days  
 D) 43 days  
 E) 45 days

**72)** The inventory turnover for the Outriggers was 9.4 times and its days' sales in receivables was 46. What is the operating cycle given a 365-day year?

72) \_\_\_\_\_\_

A) 45.63 days   
 B) 55.40 days  
 C) 63.25 days  
 D) 84.83 days  
 E) 74.29 days

**73)** Gonzalez Mercantile has an inventory turnover of 8.3, days’ sales in receivables of 57, and an average payables turnover of 7.2. What is the cash cycle given a 365-day year?

73) \_\_\_\_\_\_

A) 50.28 days   
 B) 58.04 days  
 C) 55.00 days  
 D) 49.29 days  
 E) 61.37 days

**74)** In 2021, Blossom had sales of $318,000, cost of goods sold of $249,000, and ending inventory of $138,000. In 2022, sales were $349,000, cost of goods sold were $256,000, and ending inventory was $151,000. What was the inventory period in 2022?

74) \_\_\_\_\_\_

A) 194.01 days   
 B) 216.99 days  
 C) 231.09 days  
 D) 206.03 days  
 E) 189.42 days

**75)** In 2021, Trinh Products had sales of $438,000, cost of goods sold of $286,000, ending inventory of $154,000, ending accounts receivable of $46,000, and ending accounts payable of $38,000. In 2022, sales were $413,000, cost of goods sold was $281,000, ending inventory was $149,000, ending accounts receivables were $48,000, and ending accounts payable were $36,000. What was the cash cycle in 2022 based on a 365-day year?

75) \_\_\_\_\_\_

A) 202.96   
 B) 190.27  
 C) 203.17  
 D) 185.87  
 E) 186.05

**76)** MacKenzies has an operating cycle of 112 days, a receivables period of 42 days, and a payables period of 36 days. If the firm revises its credit policy, it believes it can reduce its receivables period by 4 days. Given this revision, what will be the firm’s cash cycle?

76) \_\_\_\_\_\_

A) 72 days   
 B) 144 days  
 C) 80 days  
 D) 66 days  
 E) 150 days

**77)** Martinique’s has a collection period of 60 days. Sales for the next calendar year are estimated at $1,550, $1,230, $1,780 and $2,800, respectively, by quarter starting with the first quarter of the year. Given this information, which one of the following statements is correct? Assume a 30-day month.

77) \_\_\_\_\_\_

A) The firm will collect $1,133.33 in Quarter 2.   
 B) The accounts receivable balance at the beginning of Quarter 4 will be $1,066.67.  
 C) The firm will collect $593.33 from Quarter 2 sales in Quarter 3.  
 D) The firm will have an accounts receivable balance of $1,866.67 at the end of the year.  
 E) The firm will collect a total of $1,033.33 in Quarter 4.

**78)** The Cheung Company has a beginning receivables balance on January 1st of $930. Sales for January through April are $970, $1,050, $1,330, and $1,460, respectively. The accounts receivable period is 36 days. How much did the firm collect in the month of March? Assume a 30-day month.

78) \_\_\_\_\_\_

A) $1,034   
 B) $1,316  
 C) $1,289  
 D) $1,350  
 E) $1,180

**79)** Chibuzor’s had sales of $2,380, $2,840, $4,430, and $4,480 for the months of January through April, respectively. The accounts receivable period is 15 days. How much did the firm collect in the month of March? Assume a 30-day month.

79) \_\_\_\_\_\_

A) $2,215   
 B) $4,160  
 C) $3,635  
 D) $3,430  
 E) $1,420

**80)** Landplan has a beginning receivables balance on January 1st of $685. Sales for January through April are $735, $690, $770, and $850, respectively. The accounts receivable period is 30 days. How much did the firm collect in the month of April? Assume a 30-day month.

80) \_\_\_\_\_\_

A) $735   
 B) $690  
 C) $730  
 D) $810  
 E) $770

**81)** Madison Cleaners has an accounts receivable period of 38 days. The estimated quarterly sales for this year, starting with the first quarter, are $1,200, $1,400, $1,900, and $1,200, respectively. How much does the firm expect to collect in the fourth quarter? Assume a 30-day month.

81) \_\_\_\_\_\_

A) $1,592.08   
 B) $1,604.44  
 C) $1,495.56  
 D) $1,509.11  
 E) $1,660.02

**82)** Tropic Palms expects credit sales of $980, $1,460, $1,730 and $950 for the months of April through July, respectively. The firm collects 25 percent of sales in the month of sale, 65 percent of sales in the month following the month of sale, and 8 percent in the second month following the month of sale. The remaining sales are never collected. How much money does the firm expect to collect in the month of July?

82) \_\_\_\_\_\_

A) $1,645.50   
 B) $1,478.80  
 C) $1,571.10  
 D) $1,374.20  
 E) $1,475.50

**83)** Mercy Supply purchases its inventory one quarter prior to the quarter of sale. The purchase price is 60 percent of the sales price. The accounts payable period is 45 days. The accounts payable balance at the beginning of Quarter 1 is $39,500. The expected sales are: Quarter 1 = $32,000; Quarter 2 = $34,500; Quarter 3 = $40,600; Quarter 4 = $50,200. What is the amount of the expected disbursements for Quarter 2? Assume a 30-day month.

83) \_\_\_\_\_\_

A) $19,280   
 B) $20,470  
 C) $22,530  
 D) $25,220  
 E) $19,950

**84)** Sunu Shipping has an accounts payable period of 60 days. The firm has expected sales of $17,800, $22,100, $24,400 and $28,800, respectively, by quarter for the next calendar year. The purchases for a quarter are equal to 65 percent of the following quarter's sales. What is the amount of the projected cash disbursements for accounts payable for Quarter 3? Assume a 30-day month.

84) \_\_\_\_\_\_

A) $11,126.67   
 B) $16,813.33  
 C) $12,693.33  
 D) $17,125.50  
 E) $12,250.33

**85)** As of the beginning of the quarter, Tabitha Nursery had a cash balance of $326. During the quarter the nursery paid suppliers $310, collected $418 on its accounts receivables, paid an interest payment of $32, and a tax bill of $184. In addition, the firm borrowed $80. What was the cash balance at the end of the quarter?

85) \_\_\_\_\_\_

A) $298   
 B) $267  
 C) $255  
 D) $272  
 E) $286

**86)** On April 1st, Morning Coffee had a beginning cash balance of $318. Sales for March were $460 and April sales were $510. During April the firm had cash expenses of $327 and payments on accounts payable of $262. The accounts receivable period is 30 days. What is the firm’s beginning cash balance on May 1st?

86) \_\_\_\_\_\_

A) $189   
 B) $173  
 C) $211  
 D) $239  
 E) $210

**87)** Faizaan’s has a beginning cash balance of $536 on February 1st. The firm has projected sales of $660 in January, $810 in February, and $890 in March. The cost of goods sold is equal to 70 percent of sales. Goods are purchased one month prior to the month of sale. The accounts payable period is 30 days and the accounts receivable period is 15 days. The firm has monthly cash expenses of $225. What is the projected ending cash balance at the end of February? Assume 30-day months.

87) \_\_\_\_\_\_

A) $437   
 B) $502  
 C) $479  
 D) $423  
 E) $486

**88)** Tabletop Events has a beginning cash balance of $27 and a net cash inflow for the quarter of −$52. Company policy is to maintain a minimum cash balance of $20 and borrow only the amount that is necessary to maintain that balance. How much, if any, does the firm need to borrow this quarter?

88) \_\_\_\_\_\_

A) $17   
 B) $52  
 C) $45  
 D) $25  
 E) $0

**89)** Baxter Trucking has a net cash inflow for the quarter of $38 including interest, a beginning cash balance of $22, and a beginning loan balance of $45. Company policy is to maintain a minimum cash balance of $20. What is the minimum amount the firm must borrow or can repay to end the month with a zero cumulative surplus?

89) \_\_\_\_\_\_

A) Borrow $4   
 B) Borrow $9  
 C) Repay $36  
 D) Repay $422  
 E) Repay $40

**90)** Xochitl Fabrics has a line of credit with a local bank for $250,000. The loan agreement calls for interest of 7.6 percent with a compensating balance requirement of 5 percent, which is based on the total amount borrowed. What is the effective interest rate if the firm needed $138,000 for one year to cover its expansion costs?

90) \_\_\_\_\_\_

A) 8.55%   
 B) 7.60%  
 C) 8.13%  
 D) 8.38%  
 E) 8.00%

**91)** Pluto Company has arranged a line of credit of $225,000 with an interest rate of 8.25 percent and a compensating balance requirement of 1.5 percent, which is based on the total amount borrowed. Assume the firm uses this source of funding to purchase a $167,000 piece of equipment and repays the loan in a lump sum at the end of one year. What is the effective interest rate?

91) \_\_\_\_\_\_

A) 9.75%   
 B) 9.27%  
 C) 8.08%  
 D) 8.26%  
 E) 8.38%

**92)** Midtown Bank has granted a line of credit of $80,000 with an interest rate of 7.5 percent and a compensating balance requirement of 2.5 percent to Xu Pianos. The compensating balance requirement is based on the total amount borrowed. What is the effective annual interest rate if the firm needs $55,000 for one year to finance its inventory?

92) \_\_\_\_\_\_

A) 8.80%   
 B) 9.44%  
 C) 8.12%  
 D) 7.69%  
 E) 7.78%

**93)** Road Kill Restaurant had the following account balances. The change in these accounts represents a net \_\_\_\_ of cash for the year in the amount of \_\_\_\_\_.

|  |  |  |
| --- | --- | --- |
|  | **Beginning Balance** | **Ending Balance** |
| **Accounts receivable** | $ 26,775 | $ 24,560 |
| **Accounts payable** | 39,305 | 40,690 |
| **Inventory** | 19,045 | 22,930 |

93) \_\_\_\_\_\_

A) Source; $3,055   
 B) Source; $4,715  
 C) Use; $285  
 D) Source; $285  
 E) Use; 4,715

**94)** A company has an inventory period of 26.0 days, an accounts payable period of 40.1 days, and an accounts receivable period of 33.2 days. What is the company's operating cycle?

94) \_\_\_\_\_\_

A) 99.3 days   
 B) 19.1 days  
 C) 47.3 days  
 D) 32.9 days  
 E) 59.2 days

**95)** Ives Corporation, has an inventory period of 21.6 days, an accounts payable period of 31.5 days, and an accounts receivable period of 29.0 days. What is the company's cash cycle?

95) \_\_\_\_\_\_

A) 50.6 days   
 B) 82.1 days  
 C) 38.9 days  
 D) 24.1 days  
 E) 19.1 days

**96)** You are researching a company and find that it has an inventory period of 22.8 days, an accounts payable period of 38.9 days, and an accounts receivable period of 32.6 days. The company's cash cycle is \_\_\_ days and its operating cycle is \_\_\_ days.

96) \_\_\_\_\_\_

A) 55.4; 16.5   
 B) 71.5; 48.7  
 C) 61.7; 29.1  
 D) 16.5; 55.4  
 E) 29.1; 61.7

**97)** Stoney Brooke, Incorporated,has sales of $980,000 and cost of goods sold of $685,300. The firm had a beginning inventory of $37,000 and an ending inventory of $52,000. What is the length of the inventory period? Assume 365 days per year.

97) \_\_\_\_\_\_

A) 23.38 days   
 B) 19.71 days  
 C) 23.70 days  
 D) 19.44 days  
 E) 16.57 days

**98)** On average, your firm sells $33,000 of items on credit each day. The average inventory period is 34 days and your operating cycle is 54 days. What is the average accounts receivable balance?

98) \_\_\_\_\_\_

A) $1,320,000   
 B) $1,122,000  
 C) $1,155,000  
 D) $660,000  
 E) $1,782,000

**99)** Gibson's has sales for the year of $546,400, cost of goods sold equal to 88 percent of sales, and an average inventory of $82,800. The profit margin is 7 percent and the tax rate is 35 percent. How many days, on average, does it take the company to sell an inventory item? Assume 365 days per year.

99) \_\_\_\_\_\_

A) 55.31 days   
 B) 62.85 days  
 C) 67.34 days  
 D) 57.62 days  
 E) 44.00 days

**100)** Mariota's has annual sales of $496,200 and cost of goods sold of $322,530. The beginning accounts receivable was $44,000 and the ending receivables is $48,100. How many days on average does it take the company to collect its accounts receivable? Assume 365 days per year.

100) \_\_\_\_\_\_

A) 31.05 days   
 B) 33.87 days  
 C) 35.38 days  
 D) 32.37 days  
 E) 10.78 days

**101)** The Monster Truck operates several specialty vehicles that provide hot food and beverages for firms that have workers employed in outlying regions. The company has annual sales of $632,000. Cost of goods sold average 54 percent of sales and the profit margin is 6.7 percent. The average accounts receivable balance is $36,900. On average, how long does it take the company to collect payment for its services? Assume 365 days per year.

101) \_\_\_\_\_\_

A) 17.13 days   
 B) 31.53 days  
 C) 17.58 days  
 D) 21.31 days  
 E) 19.54 days

**102)** The inventory turnover for Haute Hippie has gone from an average of 10.08 times to 10.79 times per year. How does this affect the inventory period? Assume 365 days per year.

102) \_\_\_\_\_\_

A) Increase of 2.18 days.   
 B) Increase of 2.38 days.  
 C) Decrease of 2.38 days.  
 D) Decrease of 2.62 days.  
 E) Decrease of 2.18 days.

**103)** Big Al's Meat Market has annual sales of $558,000 and cost of goods sold of $379,700. The profit margin is 6.6 percent and the accounts payable period is 30.8 days. What is the average accounts payable balance? Assume 365 days per year.

103) \_\_\_\_\_\_

A) $34,329.04   
 B) $36,617.64  
 C) $32,040.44  
 D) $81,364.29  
 E) $29,370.40

**104)** Underground Funeral Services has annual sales of $882,200. The cost of goods sold is equal to 87 percent of sales. The firm has an average accounts receivable balance of $87,000 and an average accounts payable balance of $72,750. How many days on average does it take the firm to pay its suppliers?

104) \_\_\_\_\_\_

A) 37.07 days   
 B) 30.10 days  
 C) 34.60 days  
 D) 31.71 days  
 E) 41.37 days

**105)** The Fried Green Tomatoes Restaurant has increased its operating cycle from 97.6 days to 101.9 days while the cash cycle has decreased by 3 days. How have these changes affected the accounts payable period?

105) \_\_\_\_\_\_

A) Decrease of 7.3 days   
 B) Decrease of 1.3 days  
 C) Increase of 1.3 days  
 D) Increase of 4.3 days  
 E) Increase of 7.3 days

**106)** Ferry's Furniture Outlet has an accounts receivable period of 50.02 days and an accounts payable period of 38.91 days. The company turns over its inventory 5.37 times per year. What is the length of the company's operating cycle? Assume 365 days per year.

106) \_\_\_\_\_\_

A) 117.99 days   
 B) 29.06 days  
 C) 88.93 days  
 D) 79.08 days  
 E) 106.88 days

**107)** The Fried Green Tomatoes Restaurant has increased its operating cycle from 99.2 days to 104.5 days while the cash cycle has decreased by 3.6 days. How have these changes affected the accounts payable period?

107) \_\_\_\_\_\_

A) Increase of 1.7 days.   
 B) Increase of 5.3 days.  
 C) Increase of 8.9 days.  
 D) Decrease of 1.7 days.  
 E) Decrease of 8.9 days.

**108)** Carter's Gym Supply currently has an operating cycle of 75.60 days. The company has a goal to increase its inventory turnover from 8.56 times to 9.82 times. What will the company's new operating cycle be if it can achieve this goal? Assume 365 days per year.

108) \_\_\_\_\_\_

A) 70.13 days   
 B) 38.43 days  
 C) 75.60 days  
 D) 81.07 days  
 E) 32.96 days

**109)** GPR, Incorporated, has an inventory turnover of 25.98 times, a payables turnover of 14.57 times, and a receivables turnover of 8.52 times. What is the length of the company's cash cycle? Assume 365 days per year.

109) \_\_\_\_\_\_

A) 31.84 days   
 B) 42.84 days  
 C) 19.93 days  
 D) 53.84 days  
 E) 81.94 days

**110)** ABC, Incorporated, has a beginning receivables balance on January 1st of $670. Sales for January through April are $430, $460, $540 and $560, respectively. The accounts receivable period is 60 days. How much did the firm collect in the month of March? Assume that a year has 360 days.

110) \_\_\_\_\_\_

A) $430   
 B) $560  
 C) $540  
 D) $460  
 E) $670

**111)** Weisbro and Sons purchases its inventory one quarter prior to the quarter of sale. The purchase price is 60 percent of the sales price. The accounts payable period is 60 days. The accounts payable balance at the beginning of Quarter 1 is $27,600. What is the amount of the expected disbursements for Quarter 2 given the following expected quarterly sales?

|  |  |
| --- | --- |
| **Quarter 1:** | $ 76,000 |
| **Quarter 2:** | $ 117,000 |
| **Quarter 3:** | $ 109,000 |
| **Quarter 4:** | $ 118,000 |

111) \_\_\_\_\_\_

A) $45,600   
 B) $67,000  
 C) $62,400  
 D) $68,600  
 E) $70,400

**112)** Wigmore, Incorporated, has estimated sales of $15,800, $17,700, $18,080, and $17,500 for each quarter next year, respectively. The accounts receivable period is 80 days. What is the expected accounts receivable balance at the end of the second quarter? Assume each month has 30 days.

112) \_\_\_\_\_\_

A) $14,044.44   
 B) $1,966.67  
 C) $2,008.89  
 D) $15,733.33  
 E) $16,071.11

**113)** Westmore Products has projected the following quarterly sales. The accounts receivable at the beginning of the year is $345 and the collection period is 45 days. What are collections for the first quarter?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Q1** | **Q2** | **Q3** | **Q4** |
| **Sales** | $ 620 | $ 675 | $ 760 | $ 970 |

113) \_\_\_\_\_\_

A) $656.67   
 B) $310.00  
 C) $620.00  
 D) $655.00  
 E) $551.67

**114)** Dora Distribution has projected the following quarterly sales. The accounts receivable at the beginning of the year is $1,025 and the collection period is 60 days. What are collections for the first quarter?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Q1** | **Q2** | **Q3** | **Q4** |
| **Sales** | $ 1,695 | $ 1,760 | $ 2,105 | $ 2,130 |

114) \_\_\_\_\_\_

A) $847.50   
 B) $1,872.50  
 C) $1,590.00  
 D) $1,695.00  
 E) $1,738.33

**115)** Chasteen Hall currently has 62 days in its cash cycle and 145 days in its operating cycle. The firm purchases its inventory from one supplier. This supplier has offered a 5 percent discount to the firm if it will pay for its purchases within 10 days instead of the normal 39 days. If the firm opts to take advantage of the discount offered, its new operating cycle will be \_\_\_\_\_ days and its new cash cycle will be \_\_\_\_\_ days.

115) \_\_\_\_\_\_

A) 145 days; 91 days   
 B) 116 days; 33 days  
 C) 145 days; 62 days  
 D) 174 days; 62 days  
 E) 116 days; 116 days

**116)** Dillingham, Incorporated, has a 60-day collection period. The projected sales for each quarter next year are shown below. What are collections for the third quarter?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Q1** | **Q2** | **Q3** | **Q4** |
| **Sales** | $ 3,710 | $ 4,305 | $ 4,715 | $ 5,205 |

116) \_\_\_\_\_\_

A) $4,106.67   
 B) $3,143.33  
 C) $4,578.33  
 D) $5,041.67  
 E) $4,441.67

**117)** The Lumber Yard has projected the sales below for the next four months. The company collects 32 percent of its sales in the month of sale, 49 percent in the month following the month of sale, 17 percent two months after the month of sale, and never collects 2 percent of its sales. How much will the company collect in April?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **January** | **February** | **March** | **April** |
| **Sales** | $ 138,650 | $ 145,025 | $ 151,975 | $ 166,750 |

117) \_\_\_\_\_\_

A) $152,482   
 B) $154,994  
 C) $149,432  
 D) $155,255  
 E) $119,694

**118)** Keedis Products has projected the following sales for the coming year:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Q1** | **Q2** | **Q3** | **Q4** |
| **Sales** | $ 13,700 | $ 13,550 | $ 14,375 | $ 15,525 |

The company places orders each quarter that are 25 percent of the followingquarter's sales and has a 60-day payables period. What is the payment of accounts for the second quarter?

118) \_\_\_\_\_\_

A) $3,387.50   
 B) $2,395.83  
 C) $3,412.50  
 D) $3,456.25  
 E) $3,525.00

**119)** JoAnn Manufacturing has projected the following sales for the coming year:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Q1** | **Q2** | **Q3** | **Q4** |
| **Sales** | $ 54,075 | $ 60,725 | $ 69,375 | $ 74,850 |

The company places orders each quarter that are 30 percent of the following quarter's sales and has a 30-day payables period. What is the payment of accounts for the third quarter?

119) \_\_\_\_\_\_

A) $21,360.00   
 B) $22,455.19  
 C) $19,082.50  
 D) $19,947.50  
 E) $21,907.50

**120)** The company places orders each quarter that are 60 percent of next quarter's sales and has a 30-day payables period. The projected sales for next year are:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Q1** | **Q2** | **Q3** | **Q4** |
| **Sales** | $ 54,525 | $ 61,475 | $ 69,825 | $ 75,450 |

What is the accounts payable balance at the end of the second quarter?

120) \_\_\_\_\_\_

A) $27,930   
 B) $19,278  
 C) $12,295  
 D) $24,590  
 E) $13,965

**121)** All That Remains Products has projected sales for next year of:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Q1** | **Q2** | **Q3** | **Q4** |
| **Sales** | $ 76,900 | $ 80,450 | $ 86,950 | $ 94,560 |

The company places orders each quarter that are 61 percent of the following quarter's sales and has a 60-day payables period. What is the accounts payable balance at the end of the third quarter?

121) \_\_\_\_\_\_

A) $19,227   
 B) $38,454  
 C) $28,067  
 D) $16,358  
 E) $17,680

**122)** A company has a collection period of 45 days and factors all receivables immediately at a discount of 2.3 percent. What is the effective annual cost of borrowing? Assume 365 days per year.

122) \_\_\_\_\_\_

A) 20.25 percent   
 B) 20.77 percent  
 C) 19.09 percent  
 D) 19.13 percent  
 E) 18.00 percent

**123)** Franklin, Incorporated, has an inventory turnover of 16.9 times, a payables turnover of 10.2 times, and a receivables turnover of 8.7 times. What is the company's cash cycle? Assume 365 days per year.

123) \_\_\_\_\_\_

A) 15.43 days   
 B) 31.73 days  
 C) 49.90 days  
 D) 27.77 days  
 E) 56.14 days

**124)** Gifts For All has projected sales for next year of:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Q1** | **Q2** | **Q3** | **Q4** |
| **Sales** | $ 25,400 | $ 27,600 | $ 34,000 | $ 41,900 |

Purchases are equal to 63 percent of next quarter's sales. Each month has 30 days, the accounts receivable period is 40 days, and the accounts payable period is 43 days. How much will the company pay suppliers in the third quarter?

124) \_\_\_\_\_\_

A) $24,185   
 B) $22,846  
 C) $24,019  
 D) $19,494  
 E) $23,798

**125)** The Cookie Shop'spurchases are equal to 69 percent of the following month's sales. The accounts payable period for purchases is 30 days while all other expenditures are paid in the month they are incurred. Assume each month has 30 days. The company has compiled the following information.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **April** | **May** | **June** |
| **Sales** | $ 8,000 | $ 8,300 | $ 8,700 |
| **Other expenses** | 2,300 | 2,350 | 2,600 |
| **Interest and taxes** | 470 | 480 | 500 |

What are the company's total cash disbursements for May?

125) \_\_\_\_\_\_

A) $8,290   
 B) $8,350  
 C) $8,557  
 D) $9,103  
 E) $8,833

**126)** The York Company has arranged a line of credit that allows it to borrow up to $53 milion at any time. The interest rate is .629 percent per month. Additionally, the company must deposit 3 percent of the amount borrowed in a non-interest bearing account. The bank uses compound interest on its line-of-credit loans. What is the effective annual rate on this line of credit?

126) \_\_\_\_\_\_

A) 6.48%   
 B) 8.06%  
 C) 7.15%  
 D) 8.95%  
 E) 7.81%

**127)** Yoo, Incorporated, has arranged a line of credit that allows it to borrow up to $54 million at any time. The interest rate is .630 percent per month. Additionally, the company must deposit 4 percent of the amount borrowed in a non-interest bearing account. The bank uses compound interest on its line-of-credit loans. If the company needs $30 million for 7 months, how much will it pay in interest?

127) \_\_\_\_\_\_

A) $1,346,088.33   
 B) $1,557,972.61  
 C) $1,211,479.50  
 D) $1,076,870.67  
 E) $1,402,175.35

**128)** Your company has arranged a revolving credit agreement for up to $60 million at an interest rate of 1.29 percent per quarter. The agreement also requires your company to maintain a compensating balance of 4 percent of the unused portion of the credit line, to be deposited in a non-interest bearing account. Your company's short-term investment account at the same bank pays an interest rate of .43 per quarter. What is the effective annual interest rate if your company does not use the revolving credit arrangement during the year?

128) \_\_\_\_\_\_

A) 1.90%   
 B) 1.73%  
 C) 2.54%  
 D) 2.18%  
 E) 5.26%

**129)** Your company has arranged a revolving credit agreement for up to $77 million at an interest rate of 1.46 percent per quarter. The agreement also requires your company to maintain a compensating balance of 3 percent of the unused portion of the credit line, to be deposited in a non-interest bearing account. Your company's short-term investment account at the same bank pays an interest rate of .60 per quarter. What is the effective annual interest rate if your company borrows $42 million for one year?

129) \_\_\_\_\_\_

A) 6.49%   
 B) 6.03%  
 C) 5.97%  
 D) 7.58%  
 E) 6.63%

**130)** Your company has agreed to a $410 million fixed-commitment line of credit. The loan agreement calls for your company to pay 1.48 percent per quarter on any funds borrowed and maintain a 5 percent compensating balance on any funds borrowed at zero percent interest. What is the effective annual interest rate on this line of credit?

130) \_\_\_\_\_\_

A) 5.38%   
 B) 6.37%  
 C) 6.05%  
 D) 5.19%  
 E) 6.21%

**131)** Denver's Designs had sales for the year of $669,200 and cost of goods sold equal to 67 percent of sales. The inventory at the beginning of the year was $118,600 and the end-of-year inventory was $133,700. What was the inventory turnover?

131) \_\_\_\_\_\_

A) 5.30 times   
 B) 3.55 times  
 C) 3.35 times  
 D) 3.78 times  
 E) 2.93 times

**132)** Cloche's Hats had sales for the year of $632,000 and cost of goods sold equal to 66 percent of sales. The inventory at the beginning of the year was $107,800 and the end-of-year inventory was $120,500. What was the company's inventory period? Assume 365 days in a year.

132) \_\_\_\_\_\_

A) 91.10 days   
 B) 94.33 days  
 C) 99.89 days  
 D) 87.87 days  
 E) 105.44 days

**133)** McCallister's just purchased $17,200 worth of inventory. The terms of the sale were 2/10, net 40. What is the implicit interest?

133) \_\_\_\_\_\_

A) $366   
 B) $321  
 C) $344  
 D) $310  
 E) $387

**134)** Your firm is offered credit terms of 1/10, net 25. What is the effective annual interest rate on this arrangement? Assume 365 days in each year.

134) \_\_\_\_\_\_

A) 27.71%   
 B) 21.90%  
 C) 30.13%  
 D) 23.12%  
 E) 24.33%

**135)** Cosplay Unlimited sells 1,040 outfits per year at an average price of $148. The terms of the sale are 1/10, net 35. The discount is taken by 76 percent of customers. What is the company's accounts receivable balance? Assume 365 days per year.

135) \_\_\_\_\_\_

A) $6,747.18   
 B) $8,183.59  
 C) $14,759.45  
 D) $9,620.00  
 E) $16,235.40

**136)** Cat Supplies offers terms of 1/10, net 35. The discount is taken by 78 percent of customers. What is the company's average collection period?

136) \_\_\_\_\_\_

A) 23.55 days   
 B) 19.00 days  
 C) 15.50 days  
 D) 22.50 days  
 E) 14.27 days

**137)** Black Guard Security has annual sales of $389,000 and a collection period of 21.46 days. What is the company's average balance in accounts receivable? Assume 365 days per year.

137) \_\_\_\_\_\_

A) $17,608.84   
 B) $23,633.44  
 C) $18,126.75  
 D) $20,498.91  
 E) $22,871.07

**138)** Silver Eyes, Incorporated, has an average collection period of 24.11 days and its average daily accounts receivable is $389,000. What are the company's annual credit sales assuming 365 days per year?

138) \_\_\_\_\_\_

A) $8,124,674.28   
 B) $6,543,389.10  
 C) $9,378,790.00  
 D) $5,889,050.19  
 E) $6,870,558.55

**139)** A company has annual sales of $4,250,000 and its average daily accounts receivable is $345,000. What is the average days' sales in receivables? Assume 365 days per year.

139) \_\_\_\_\_\_

A) 29.63 times   
 B) 32.92 times  
 C) 23.44 times  
 D) 34.57 times  
 E) 12.32 times

**140)** Net working capital is defined as the:

140) \_\_\_\_\_\_

A) current assets of a business.   
 B) difference between current assets and current liabilities.  
 C) present value of short-term cash flows.  
 D) difference between all assets and liabilities.  
 E) difference between total current assets and cash.

**141)** Which one of the following actions is a source of cash?

141) \_\_\_\_\_\_

A) An increase in accounts receivable   
 B) An increase in fixed assets  
 C) A decrease in long-term debt  
 D) The payment of a cash dividend  
 E) An increase in accounts payable

**142)** Which one of the following actions is a use of cash?

142) \_\_\_\_\_\_

A) Selling goods from inventory   
 B) Sale of a marketable security held by the firm  
 C) Submitting taxes to the government  
 D) Obtainment of a long-term loan  
 E) Collection of a past-due accounts receivable

**143)** Assume the current ratio is greater than 1.0. Which one of the following actions will cause an increase in net working capital?

143) \_\_\_\_\_\_

A) Using cash to pay an accounts payable   
 B) Using cash to pay a long-term debt  
 C) Selling inventory at cost  
 D) Collecting an accounts receivable  
 E) Using a long-term loan to buy inventory

**144)** Assume the current ratio is greater than 1.0. Which one of the following actions will cause a decrease in net working capital?

144) \_\_\_\_\_\_

A) Selling inventory at a profit   
 B) Collecting an accounts receivable  
 C) Paying a payment on a long-term debt  
 D) Selling a fixed asset for book value  
 E) Paying an accounts payable

**145)** Which one of the following actions is a use of cash?

145) \_\_\_\_\_\_

A) An increase in borrowing   
 B) An increase in operating cash flow  
 C) A decrease in accounts payable  
 D) An increase in notes payable  
 E) A decrease in inventory

**146)** Which of the following actions results in a use of cash?

146) \_\_\_\_\_\_

A) A decrease in a liability only   
 B) An increase in an asset only  
 C) An increase in retained earnings only  
 D) Both an increase in an asset and an increase in retained earnings  
 E) Both a decrease in a liability and an increase in an asset

**147)** When \_\_\_\_\_\_\_\_, cash increases.

147) \_\_\_\_\_\_

A) long-term debt decreases   
 B) equity decreases  
 C) current liabilities decrease  
 D) accounts payable increases  
 E) fixed assets increase

**148)** If a firm needs to increase its cash holdings it could:

148) \_\_\_\_\_\_

A) increase fixed assets.   
 B) decrease accounts payable.  
 C) decrease long-term debt.  
 D) increase other current assets.  
 E) increase current liabilities.

**149)** When \_\_\_\_\_\_\_\_, cash decreases.

149) \_\_\_\_\_\_

A) current assets other than cash increase   
 B) fixed assets decrease  
 C) current liabilities increase  
 D) retained earnings increase  
 E) long-term debt increases

**150)** The cash cycle is defined as the time between:

150) \_\_\_\_\_\_

A) the arrival of inventory and cash collected from receivables.   
 B) selling a product and paying the supplier of that product.  
 C) selling a product and collecting the accounts receivable.  
 D) cash disbursements and cash collection for an item.  
 E) the sale of inventory and cash collection.

**151)** The cash cycle equals the:

151) \_\_\_\_\_\_

A) inventory period plus the accounts receivable period.   
 B) change in net working capital divided by daily sales.  
 C) operating cycle plus the accounts payable period.  
 D) operating cycle minus the inventory period.  
 E) operating cycle minus the accounts payable period.

**152)** A firm’s operating cycle will decrease if the firm:

152) \_\_\_\_\_\_

A) pays accounts payable faster.   
 B) discontinues the discount given for early payment of an accounts receivable.  
 C) decreases the inventory turnover rate.  
 D) collects accounts receivable faster.  
 E) increases the accounts payable turnover rate.

**153)** A firm’s operating cycle will decrease if the firm decreases the:

153) \_\_\_\_\_\_

A) days' sales in inventory.   
 B) days in accounts payable.  
 C) cash cycle by increasing the accounts payable period.  
 D) accounts receivable turnover rate.  
 E) speed at which inventory is sold.

**154)** Which one of the following actions will not impact the operating cycle?

154) \_\_\_\_\_\_

A) Decreasing the payables turnover from 7 times to 6 times   
 B) Increasing the days' sales in receivables  
 C) Decreasing the inventory turnover rate  
 D) Increasing the average receivables balance  
 E) Decreasing the credit repayment times for the firm’s customers

**155)** A firm can decrease its cash cycle by:

155) \_\_\_\_\_\_

A) increasing the cash discount offered to customers who pay their accounts early.   
 B) increasing the percentage of customers paying with credit rather than cash.  
 C) increasing the amount of raw materials kept in inventory.  
 D) paying your suppliers earlier to receive a discount on your purchases.  
 E) increasing your inventory to prevent stock-outs.

**156)** The cash cycle will decrease as a result of increasing the:

156) \_\_\_\_\_\_

A) payables turnover.   
 B) days' sales in inventory.  
 C) operating cycle.  
 D) inventory turnover rate.  
 E) accounts receivable period.

**157)** In the past, Rodriquez Manufacture manufactured products and held them in inventory until they could be sold. The firm is changing its processes and will now only produce a product upon receiving an order from a customer. All else equal, this change will:

157) \_\_\_\_\_\_

A) increase the operating cycle.   
 B) lengthen the accounts receivable period.  
 C) shorten the accounts payable period.  
 D) decrease the cash cycle.  
 E) decrease the inventory turnover rate.

**158)** Which one of the following statements concerning the cash cycle is correct?

158) \_\_\_\_\_\_

A) The cash cycle is equal to the operating cycle minus the inventory period.   
 B) A negative cash cycle is actually preferable to a positive cash cycle.  
 C) Granting credit to slower paying customers tends to decrease the cash cycle.  
 D) The cash cycle plus the accounts receivable period is equal to the operating cycle.  
 E) The most desirable cash cycle is the one that equals zero days.

**159)** Which one of the following statements concerning the cash cycle is correct?

159) \_\_\_\_\_\_

A) The longer the cash cycle, the more likely a firm will need external financing.   
 B) Increasing the accounts payable period increases the cash cycle.  
 C) A positive cash cycle is preferable to a negative cash cycle.  
 D) The cash cycle can exceed the operating cycle if the payables period is equal to zero.  
 E) Adopting a more liberal accounts receivable policy will tend to decrease the cash cycle.

**160)** If a firm delays paying its suppliers by an additional ten days, then:

160) \_\_\_\_\_\_

A) its payables turnover rate will increase.   
 B) it should require less bank financing of its daily operations.  
 C) its cash cycle will increase by ten days.  
 D) its operating cycle will increase by ten days.  
 E) its stock-out costs will rise.

**161)** Given a fixed level of sales and a constant profit margin, an increase in the accounts payable period can result from:

161) \_\_\_\_\_\_

A) an increase in the cost of goods sold account value.   
 B) an increase in the ending accounts payable balance.  
 C) an increase in the cash cycle.  
 D) a decrease in the operating cycle.  
 E) a decrease in the average accounts payable balance.

**162)** A firm’s accounts receivable policy is generally set by the:

162) \_\_\_\_\_\_

A) purchasing manager.   
 B) credit manager.  
 C) controller.  
 D) production manager.  
 E) payables manager.

**163)** The manager typically responsible for applying payments to customers’ accounts is the:

163) \_\_\_\_\_\_

A) controller.   
 B) payables manager.  
 C) credit manager.  
 D) purchasing manager.  
 E) production manager.

**164)** The \_\_\_\_\_\_\_\_ is the length of time between the acquisition of inventory and the collection of receivables.

164) \_\_\_\_\_\_

A) operating cycle   
 B) inventory period  
 C) accounts receivable period  
 D) accounts payable period  
 E) cash cycle

**165)** The \_\_\_\_\_\_\_\_ is the length of time between the acquisition and sale of inventory.

165) \_\_\_\_\_\_

A) operating cycle   
 B) inventory period  
 C) accounts receivable period  
 D) accounts payable period  
 E) cash cycle

**166)** The length of time between the sale of inventory and the collection of cash from receivables is called the:

166) \_\_\_\_\_\_

A) operating cycle.   
 B) inventory period.  
 C) accounts receivable period.  
 D) accounts payable period.  
 E) cash cycle.

**167)** The length of time between the acquisition of inventory by a firm and the payment by the firm for that inventory is called the:

167) \_\_\_\_\_\_

A) operating cycle.   
 B) inventory period.  
 C) accounts receivable period.  
 D) accounts payable period.  
 E) cash cycle.

**168)** The length of time between the payment for inventory and the collection of cash from receivables is called the:

168) \_\_\_\_\_\_

A) operating cycle.   
 B) inventory period.  
 C) accounts receivable period.  
 D) accounts payable period.  
 E) cash cycle.

**169)** If the average accounts receivable that a firm holds decreases without any decrease in credit sales, the operating cycle will:

169) \_\_\_\_\_\_

A) remain constant because sales remained constant.   
 B) remain constant because the change will only affect the cash cycle.  
 C) decrease because the days’ sales outstanding will decrease.  
 D) increase because the accounts receivable turnover will decrease.  
 E) decrease because the accounts receivable turnover will decrease.

**170)** Flexible short-term financial policies tend to:

170) \_\_\_\_\_\_

A) maintain low accounts receivable balances.   
 B) support few investments in marketable securities.  
 C) minimize the investment in inventory.  
 D) maintain large cash balances.  
 E) tightly restrict credit sales.

**171)** The short-term financial policy a firm adopts will be reflected in:

171) \_\_\_\_\_\_

A) the size of the firm’s investment in current assets.   
 B) the financing of current assets.  
 C) the financing of fixed assets.  
 D) both the size and the financing of current assets.  
 E) both the size and the financing of fixed assets.

**172)** Costs of the firm that rise with increased levels of investment in its current assets are called \_\_\_\_\_ costs.

172) \_\_\_\_\_\_

A) carrying   
 B) shortage  
 C) order  
 D) safety  
 E) trading

**173)** Costs of the firm that fall with increased levels of investment in its current assets are called \_\_\_\_\_ costs.

173) \_\_\_\_\_\_

A) carrying   
 B) shortage  
 C) debt  
 D) equity  
 E) payables

**174)** A restrictive short-term financial policy tends to:

174) \_\_\_\_\_\_

A) reduce future sales more than a flexible policy does.   
 B) grant credit to more customers.  
 C) incur more carrying costs than a flexible policy does.  
 D) encourage credit sales over cash sales.  
 E) reduce order costs as compared to a more flexible policy.

**175)** A firm that adopts a flexible short-term financial policy is more likely to have:

175) \_\_\_\_\_\_

A) lower carrying costs than shortage costs.   
 B) lower shortage costs than carrying costs.  
 C) stricter limits on credit sales than the average firm.  
 D) a relatively low level of current assets.  
 E) greater short-term financing needs than if the firm adopted a restrictive policy.

**176)** A flexible short-term financial policy:

176) \_\_\_\_\_\_

A) increases the likelihood that a firm will face financial distress.   
 B) incurs an opportunity cost due to the rate of return that applies to short-term assets.  
 C) advocates a smaller investment in net working capital than a restrictive policy does.  
 D) increases the probability that a firm will earn high returns on all its assets.  
 E) utilizes short-term financing to fund all the firm’s assets.

**177)** Noemi Swim Supply has a flexible short-term financing policy. Over the course of one year, the firm should expect to have some months that allow it to:

177) \_\_\_\_\_\_

A) repay all its debts.   
 B) invest in marketable securities.  
 C) reduce its total costs below the firm’s normal minimum total cost point.  
 D) finance all its assets with short-term loans.  
 E) earn high returns on all its current assets.

**178)** Shortage costs include all the following *except* the:

178) \_\_\_\_\_\_

A) opportunity costs related to a low return on assets.   
 B) order costs.  
 C) disruption of production schedules.  
 D) production setup costs.  
 E) lost sales.

**179)** Given a flexible financing policy, a growing firm generally has a permanent requirement for:

179) \_\_\_\_\_\_

A) both current and long-term assets.   
 B) long-term assets only.  
 C) short-term debt only.  
 D) both short- and long-term debt.  
 E) current assets and short-term debt.

**180)** If a firm’s accounts receivable period is 30 days, it will collect payment for \_\_\_\_\_ sales during the second quarter of a calendar year.

180) \_\_\_\_\_\_

A) December, January, and February   
 B) January, February, and March  
 C) February and March  
 D) February, March, and April  
 E) March, April, and May

**181)** Victory Marketing collects 30 percent of its sales in the month of sale, 55 percent in the month following the month of sale, and 13 percent in the second month following the month of sale. Given this, the company will collect \_\_\_\_\_ sales during the month of May.

181) \_\_\_\_\_\_

A) 30 percent of May   
 B) 55 percent of March  
 C) 13 percent of April  
 D) 55 percent of May  
 E) 13 percent of February

**182)** A manufacturing firm has a 90-day collection period. The firm produces seasonal merchandise and thus has the least sales during the first quarter of the year and the highest level of sales during the third quarter of the year. The firm maintains a relatively steady level of production which means that its cash disbursements are approximately equal in all quarters. The firm is most apt to face a cash-out situation in:

182) \_\_\_\_\_\_

A) the first quarter.   
 B) the second quarter.  
 C) the third quarter.  
 D) the fourth quarter.  
 E) any quarter, equally.

**183)** A financially solid firm is most likely to have a quarterly cash shortfall when it encounters a:

183) \_\_\_\_\_\_

A) period of relatively constant sales.   
 B) major fixed asset expenditure.  
 C) period of rising interest rates.  
 D) period of declining interest rates.  
 E) period of increased cash collections.

**184)** Which one of the following statements is true?

184) \_\_\_\_\_\_

A) The cumulative finance surplus requirement is computed prior to adjusting for the minimum cash balance.   
 B) A financially sound firm will always have a positive quarterly net cash flow.  
 C) A negative cumulative cash surplus indicates a borrowing need.  
 D) Most firms plan on maintaining a zero cash balance.  
 E) The minimum cash balance generally increases on a quarterly basis.

**185)** A cumulative cash deficit indicates a firm:

185) \_\_\_\_\_\_

A) has at least a short-term need for external funding.   
 B) is facing long-term financial distress.  
 C) will go out of business within the year.  
 D) is capable of funding all its needs internally.  
 E) is using its cash wisely.

**186)** A prearranged, short-term bank loan up to a specified limit, made on a formal or informal basis, is called a:

186) \_\_\_\_\_\_

A) letter of credit.   
 B) cleanup loan.  
 C) compensating balance.  
 D) line of credit.  
 E) roll-over.

**187)** A fraction of the available credit on a loan agreement, deposited by the borrower in a low or non-interest-bearing account is called a:

187) \_\_\_\_\_\_

A) compensating balance.   
 B) cleanup loan.  
 C) letter of credit.  
 D) line of credit.  
 E) roll-over.

**188)** A short-term loan that calls for the lender to hold the borrower's receivables as security is called:

188) \_\_\_\_\_\_

A) a compensating balance.   
 B) assigned receivables financing.  
 C) a letter of credit.  
 D) factored receivables financing.  
 E) a bond.

**189)** A type of short-term loan in which the borrower sells its receivables to the lender up-front, but at a discount to face value, is called:

189) \_\_\_\_\_\_

A) a compensating balance.   
 B) assigned receivables financing.  
 C) a letter of credit.  
 D) factored receivables financing.  
 E) a bond.

**190)** A short-term loan which is secured by inventory that is held in trust is referred to as:

190) \_\_\_\_\_\_

A) a blanket inventory lien.   
 B) a secured line of credit.  
 C) a banker’s acceptance.  
 D) a trust receipt financing arrangement.  
 E) field warehousing financing.

**191)** The most common means of financing a temporary cash deficit is a:

191) \_\_\_\_\_\_

A) long-term secured bank loan.   
 B) short-term secured bank loan.  
 C) short-term issue of corporate bonds.  
 D) long-term unsecured bank loan.  
 E) short-term unsecured bank loan.

**192)** A compensating balance:

192) \_\_\_\_\_\_

A) requirement generally applies to inventory-type loans.   
 B) is a means of paying for banking services received.  
 C) requirement is generally set equal to one percent of the amount borrowed.  
 D) decreases the cost of short-term bank financing.  
 E) refunds a portion of the borrower’s interest if a loan is repaid early.

**193)** Which one of the following statements is correct?

193) \_\_\_\_\_\_

A) A farmer generally uses trust receipt financing to finance operations during the growing season.   
 B) An auto dealer is most apt to use purchase order financing.  
 C) A drug store is most apt to use trust receipt financing.  
 D) Trust receipt financing is most applicable to large, easily identifiable types of inventory.  
 E) Blanket inventory lien financing is another term for purchase order financing.

**194)** Commercial paper is generally issued:

194) \_\_\_\_\_\_

A) by large firms.   
 B) for 190 days or less.  
 C) by commercial banks.  
 D) for 90 to 180 days.  
 E) at the prime rate offered by the firm’s bank.

**195)** Which party(parties) is(are) ultimately responsible for an invoice from a supplier that is subject to a bankers’ acceptance?

195) \_\_\_\_\_\_

A) The bank which issued the acceptance   
 B) The purchasing firm  
 C) The investors who purchased the banker’s acceptance  
 D) The vendor who issued the invoice  
 E) Both the bank and the purchasing firm jointly

**196)** Sierra Shoes reported sales of $23,000 and cost of goods sold of $12,400 for the year. The firm had a beginning inventory of $1,400 and an ending inventory of $1,000. What is the length of the inventory period?

196) \_\_\_\_\_\_

A) 19.2 days   
 B) 35.3 days  
 C) 67.7 days  
 D) 70.7 days  
 E) 1.9 days

**197)** Last year, Woodward’s had credit sales of $927,000 and cost of goods sold of $762,000. The beginning of the year inventory was $138,000 and the end of the year inventory was $154,300. If the accounts receivables average $87,400, what is the operating cycle?

197) \_\_\_\_\_\_

A) 88.23 days   
 B) 104.42 days  
 C) 78.60 days  
 D) 70.01 days  
 E) 92.09 days

**198)** Plume has sales of $1.62 million with costs of goods sold equal to 78 percent of sales. The average inventory is $369,000, accounts payable average $438,000, and receivables average $147,000. How long is the cash cycle?

198) \_\_\_\_\_\_

A) 13.19 days   
 B) 13.30 days  
 C) 17.29 days  
 D) 7.54 days  
 E) 11.77 days

**199)** Levy’s has sales of $23,000 and cost of goods sold equal to 54 percent of sales. The beginning accounts receivable balance is $3,200 and the ending accounts receivable balance is $1,800. How long on average does it take the firm to collect its receivables?

199) \_\_\_\_\_\_

A) 9.2 days   
 B) 40.0 days  
 C) 39.7 days  
 D) 92.0 days  
 E) 33.6 days

**200)** Battisti Design-Build has credit sales of $2,414,000, costs of goods sold of $750,000, and average accounts receivable of $728,000. How long does it take its credit customers to pay for their purchases?

200) \_\_\_\_\_\_

A) 110.1 days   
 B) 3.3 days  
 C) 84.7 days  
 D) 33.2 days  
 E) 12.1 days

**201)** Elevate has sales of $437,000 and average accounts payable of $44,000. The cost of goods sold is equivalent to 44.6 percent of sales. How long does it take the firm to pay its suppliers?

201) \_\_\_\_\_\_

A) 4.4 days   
 B) 36.8 days  
 C) 5.5 days  
 D) 82.4 days  
 E) 202.1 days

**202)** Battle’s had an average accounts payable balance of $1,000,000. Sales for the period were $13,900,000 and costs of goods sold were $8,600,000. If the operating cycle is 86 days, how long is the firm’s cash cycle?

202) \_\_\_\_\_\_

A) 13.3 days   
 B) 128.4 days  
 C) 76.8 days  
 D) 59.2 days  
 E) 43.6 days

**203)** A firm has inventory turnover of 15.7, receivables turnover of 20.2, and payables turnover of 14.6. How long is the cash cycle?

203) \_\_\_\_\_\_

A) 28.46 days   
 B) 16.32 days  
 C) 32.87 days  
 D) 13.08 days  
 E) 23.37 days

**204)** Kufour Marketing has an operating cycle of 54.7 days. It is planning some operational changes that are expected to decrease the accounts receivable period by 3.2 days and decrease the inventory period by 1.9 days. Accounts payable turnover is expected to increase from 9 to 14 times per year. If all these changes are adopted, what will be the firm’s new operating cycle?

204) \_\_\_\_\_\_

A) 56.0 days   
 B) 53.4 days  
 C) 49.6 days  
 D) 59.8 days  
 E) 52.2 days

**205)** On average, Keely Boards sells its inventory in 37 days, collects on its receivables in 3.4 days, and takes 35 days to pay for its purchases. What is the length of the firm's operating cycle?

205) \_\_\_\_\_\_

A) −1.4 days   
 B) 5.4 days  
 C) 33.6 days  
 D) 40.4 days  
 E) 41.6 days

**206)** Dattam’s Market has an inventory period of 48.6 days, an accounts payable period of 36.2 days, and an accounts receivable period of 29.3 days. Management is considering offering a discount of 5 percent if its credit customers pay for their purchases within 10 days. This discount is expected to reduce the receivables period by 17 days. If the discount is offered, the operating cycle will decrease from \_\_\_ days to \_\_\_ days.

206) \_\_\_\_\_\_

A) 28.3; 11.3   
 B) 77.9; 60.9  
 C) 28.3; 45.3  
 D) 77.9; 94.9  
 E) 54.2; 37.2

**207)** Hasan’s has an inventory turnover rate of 16, an accounts payable period of 47 days, and an accounts receivable period of 37 days. What is the length of the cash cycle?

207) \_\_\_\_\_\_

A) 32.81 days   
 B) −6.00 days  
 C) 2.00 days  
 D) 6.00 days  
 E) 12.81 days

**208)** Martinez Lighting has an inventory turnover of 15 and an accounts receivable turnover of 9. The accounts payable period is 51 days. What is the length of the cash cycle?

208) \_\_\_\_\_\_

A) 13.89 days   
 B) 14.07 days  
 C) 14.23 days  
 D) 18.79 days  
 E) 23.00 days

**209)** A firm currently has a cash cycle of 36 days. Assume the firm changes its operations such that it decreases its receivables period by 4 days, decreases its inventory period by 1 day, and decreases its payables period by 2 days. What will be the length of the cash cycle after these changes?

209) \_\_\_\_\_\_

A) 31 days   
 B) 35 days  
 C) 33 days  
 D) 37 days  
 E) 38 days

**210)** Castro & Kwon currently has a cash cycle of 43 days. Assume the firm changes its operations such that it decreases its receivables period by 2 days, increases its inventory period by 1 day, and increases its payables period by 3 days. What will be the length of the cash cycle after these changes?

210) \_\_\_\_\_\_

A) 38 days   
 B) 41 days  
 C) 39 days  
 D) 43 days  
 E) 45 days

**211)** The inventory turnover for the Outriggers was 9.4 times and its days' sales in receivables was 46. What is the operating cycle given a 365-day year?

211) \_\_\_\_\_\_

A) 45.63 days   
 B) 55.40 days  
 C) 63.25 days  
 D) 84.83 days  
 E) 74.29 days

**212)** Gonzalez Mercantile has an inventory turnover of 8.3, days’ sales in receivables of 57, and an average payables turnover of 7.2. What is the cash cycle given a 365-day year?

212) \_\_\_\_\_\_

A) 50.28 days   
 B) 58.04 days  
 C) 55.00 days  
 D) 49.29 days  
 E) 61.37 days

**213)** In 2021, Blossom had sales of $318,000, cost of goods sold of $249,000, and ending inventory of $138,000. In 2022, sales were $349,000, cost of goods sold were $256,000, and ending inventory was $151,000. What was the inventory period in 2022?

213) \_\_\_\_\_\_

A) 194.01 days   
 B) 216.99 days  
 C) 231.09 days  
 D) 206.03 days  
 E) 189.42 days

**214)** In 2021, Trinh Products had sales of $438,000, cost of goods sold of $286,000, ending inventory of $154,000, ending accounts receivable of $46,000, and ending accounts payable of $38,000. In 2022, sales were $413,000, cost of goods sold was $281,000, ending inventory was $149,000, ending accounts receivables were $48,000, and ending accounts payable were $36,000. What was the cash cycle in 2022 based on a 365-day year?

214) \_\_\_\_\_\_

A) 202.96   
 B) 190.27  
 C) 203.17  
 D) 185.87  
 E) 186.05

**215)** MacKenzies has an operating cycle of 112 days, a receivables period of 42 days, and a payables period of 36 days. If the firm revises its credit policy, it believes it can reduce its receivables period by 4 days. Given this revision, what will be the firm’s cash cycle?

215) \_\_\_\_\_\_

A) 72 days   
 B) 144 days  
 C) 80 days  
 D) 66 days  
 E) 150 days

**216)** Martinique’s has a collection period of 60 days. Sales for the next calendar year are estimated at $1,550, $1,230, $1,780 and $2,800, respectively, by quarter starting with the first quarter of the year. Given this information, which one of the following statements is correct? Assume a 30-day month.

216) \_\_\_\_\_\_

A) The firm will collect $1,133.33 in Quarter 2.   
 B) The accounts receivable balance at the beginning of Quarter 4 will be $1,066.67.  
 C) The firm will collect $593.33 from Quarter 2 sales in Quarter 3.  
 D) The firm will have an accounts receivable balance of $1,866.67 at the end of the year.  
 E) The firm will collect a total of $1,033.33 in Quarter 4.

**217)** The Cheung Company has a beginning receivables balance on January 1st of $930. Sales for January through April are $970, $1,050, $1,330, and $1,460, respectively. The accounts receivable period is 36 days. How much did the firm collect in the month of March? Assume a 30-day month.

217) \_\_\_\_\_\_

A) $1,034   
 B) $1,316  
 C) $1,289  
 D) $1,350  
 E) $1,180

**218)** Chibuzor’s had sales of $2,380, $2,840, $4,430, and $4,480 for the months of January through April, respectively. The accounts receivable period is 15 days. How much did the firm collect in the month of March? Assume a 30-day month.

218) \_\_\_\_\_\_

A) $2,215   
 B) $4,160  
 C) $3,635  
 D) $3,430  
 E) $1,420

**219)** Landplan has a beginning receivables balance on January 1st of $685. Sales for January through April are $735, $690, $770, and $850, respectively. The accounts receivable period is 30 days. How much did the firm collect in the month of April? Assume a 30-day month.

219) \_\_\_\_\_\_

A) $735   
 B) $690  
 C) $730  
 D) $810  
 E) $770

**220)** Madison Cleaners has an accounts receivable period of 38 days. The estimated quarterly sales for this year, starting with the first quarter, are $1,200, $1,400, $1,900, and $1,200, respectively. How much does the firm expect to collect in the fourth quarter? Assume a 30-day month.

220) \_\_\_\_\_\_

A) $1,592.08   
 B) $1,604.44  
 C) $1,495.56  
 D) $1,509.11  
 E) $1,660.02

**221)** Tropic Palms expects credit sales of $980, $1,460, $1,730 and $950 for the months of April through July, respectively. The firm collects 25 percent of sales in the month of sale, 65 percent of sales in the month following the month of sale, and 8 percent in the second month following the month of sale. The remaining sales are never collected. How much money does the firm expect to collect in the month of July?

221) \_\_\_\_\_\_

A) $1,645.50   
 B) $1,478.80  
 C) $1,571.10  
 D) $1,374.20  
 E) $1,475.50

**222)** Mercy Supply purchases its inventory one quarter prior to the quarter of sale. The purchase price is 60 percent of the sales price. The accounts payable period is 45 days. The accounts payable balance at the beginning of Quarter 1 is $39,500. The expected sales are: Quarter 1 = $32,000; Quarter 2 = $34,500; Quarter 3 = $40,600; Quarter 4 = $50,200. What is the amount of the expected disbursements for Quarter 2? Assume a 30-day month.

222) \_\_\_\_\_\_

A) $19,280   
 B) $20,470  
 C) $22,530  
 D) $25,220  
 E) $19,950

**223)** Sunu Shipping has an accounts payable period of 60 days. The firm has expected sales of $17,800, $22,100, $24,400 and $28,800, respectively, by quarter for the next calendar year. The purchases for a quarter are equal to 65 percent of the following quarter's sales. What is the amount of the projected cash disbursements for accounts payable for Quarter 3? Assume a 30-day month.

223) \_\_\_\_\_\_

A) $11,126.67   
 B) $16,813.33  
 C) $12,693.33  
 D) $17,125.50  
 E) $12,250.33

**224)** As of the beginning of the quarter, Tabitha Nursery had a cash balance of $326. During the quarter the nursery paid suppliers $310, collected $418 on its accounts receivables, paid an interest payment of $32, and a tax bill of $184. In addition, the firm borrowed $80. What was the cash balance at the end of the quarter?

224) \_\_\_\_\_\_

A) $298   
 B) $267  
 C) $255  
 D) $272  
 E) $286

**225)** On April 1st, Morning Coffee had a beginning cash balance of $318. Sales for March were $460 and April sales were $510. During April the firm had cash expenses of $327 and payments on accounts payable of $262. The accounts receivable period is 30 days. What is the firm’s beginning cash balance on May 1st?

225) \_\_\_\_\_\_

A) $189   
 B) $173  
 C) $211  
 D) $239  
 E) $210

**226)** Faizaan’s has a beginning cash balance of $536 on February 1st. The firm has projected sales of $660 in January, $810 in February, and $890 in March. The cost of goods sold is equal to 70 percent of sales. Goods are purchased one month prior to the month of sale. The accounts payable period is 30 days and the accounts receivable period is 15 days. The firm has monthly cash expenses of $225. What is the projected ending cash balance at the end of February? Assume 30-day months.

226) \_\_\_\_\_\_

A) $437   
 B) $502  
 C) $479  
 D) $423  
 E) $486

**227)** Tabletop Events has a beginning cash balance of $27 and a net cash inflow for the quarter of −$52. Company policy is to maintain a minimum cash balance of $20 and borrow only the amount that is necessary to maintain that balance. How much, if any, does the firm need to borrow this quarter?

227) \_\_\_\_\_\_

A) $17   
 B) $52  
 C) $45  
 D) $25  
 E) $0

**228)** Baxter Trucking has a net cash inflow for the quarter of $38 including interest, a beginning cash balance of $22, and a beginning loan balance of $45. Company policy is to maintain a minimum cash balance of $20. What is the minimum amount the firm must borrow or can repay to end the month with a zero cumulative surplus?

228) \_\_\_\_\_\_

A) Borrow $4   
 B) Borrow $9  
 C) Repay $36  
 D) Repay $422  
 E) Repay $40

**229)** Xochitl Fabrics has a line of credit with a local bank for $250,000. The loan agreement calls for interest of 7.6 percent with a compensating balance requirement of 5 percent, which is based on the total amount borrowed. What is the effective interest rate if the firm needed $138,000 for one year to cover its expansion costs?

229) \_\_\_\_\_\_

A) 8.55%   
 B) 7.60%  
 C) 8.13%  
 D) 8.38%  
 E) 8.00%

**230)** Pluto Company has arranged a line of credit of $225,000 with an interest rate of 8.25 percent and a compensating balance requirement of 1.5 percent, which is based on the total amount borrowed. Assume the firm uses this source of funding to purchase a $167,000 piece of equipment and repays the loan in a lump sum at the end of one year. What is the effective interest rate?

230) \_\_\_\_\_\_

A) 9.75%   
 B) 9.27%  
 C) 8.08%  
 D) 8.26%  
 E) 8.38%

**231)** Midtown Bank has granted a line of credit of $80,000 with an interest rate of 7.5 percent and a compensating balance requirement of 2.5 percent to Xu Pianos. The compensating balance requirement is based on the total amount borrowed. What is the effective annual interest rate if the firm needs $55,000 for one year to finance its inventory?

231) \_\_\_\_\_\_

A) 8.80%   
 B) 9.44%  
 C) 8.12%  
 D) 7.69%  
 E) 7.78%

**ESSAY. Write your answer in the space provided or on a separate sheet of paper.  
232)** In working capital management, there are some actions that increase or decrease cash. What are some of the items that increase and decrease the cash account, respectively?

**233)** As the owner of Better Built Products, you plan to implement a system whereby customers who pay their bills within 30 days will receive a rebate of 2 percent on their purchases. Those who pay within 5 days will receive a rebate of 3 percent. Explain the impact of this proposal on the firm.

**234)** Identify the three primary characteristics of a restrictive short-term financial policy.

**235)** List and describe three basic types of secured inventory loans. What are the advantages and disadvantages of each type of loan?

**236)** Accounts receivable and inventory are some of the most liquid assets a firm owns and their market values are typically fairly close to book value. Even so, in the eyes of many lenders, these assets make for inadequate collateral on loans, particularly if the business looking to borrow the money is in a liquidity crisis. Why do you think this is the case?

**237)** Compensating balances are often included as a requirement for a line of credit. These balances provide income to banks but add to the cost of financing for the borrower. Why, then, would borrowers agree to such an arrangement?

**238)** In working capital management, there are some actions that increase or decrease cash. What are some of the items that increase and decrease the cash account, respectively?

**239)** As the owner of Better Built Products, you plan to implement a system whereby customers who pay their bills within 30 days will receive a rebate of 2 percent on their purchases. Those who pay within 5 days will receive a rebate of 3 percent. Explain the impact of this proposal on the firm.

**240)** Identify the three primary characteristics of a restrictive short-term financial policy.

**241)** List and describe three basic types of secured inventory loans. What are the advantages and disadvantages of each type of loan?

**242)** Accounts receivable and inventory are some of the most liquid assets a firm owns and their market values are typically fairly close to book value. Even so, in the eyes of many lenders, these assets make for inadequate collateral on loans, particularly if the business looking to borrow the money is in a liquidity crisis. Why do you think this is the case?

**243)** Compensating balances are often included as a requirement for a line of credit. These balances provide income to banks but add to the cost of financing for the borrower. Why, then, would borrowers agree to such an arrangement?

**Answer Key**Test name: Chapter 26

1) B

2) E

3) C

4) E

5) C

6) C

7) E

8) D

9) E

10) A

11) D

12) E

13) D

14) A

15) A

16) A

17) D

18) D

19) B

20) A

21) B

22) B

23) B

24) A

25) A

26) B

27) C

28) D

29) E

30) C

31) D

32) D

33) A

34) B

35) A

36) A

37) B

38) B

39) A

40) A

41) E

42) A

43) B

44) B

45) C

46) A

47) D

48) A

49) B

50) D

51) D

52) E

53) B

54) D

55) A

56) A

57) B

Inventory turnover = $12,400/[($1,400 + 1,000)/2]  
 Inventory turnover = 10.33  
 Inventory period = 365/10.33  
 Inventory period = 35.3 days

58) B

Inventory turnover = $762,000/[($138,000 + 154,300)/2]  
 Inventory turnover = 5.21 times  
   
 Inventory period = 365/5.21  
 Inventory period = 70.01 days  
   
 Accounts receivable turnover = $927,000/$87,400  
 Accounts receivable turnover = 10.61  
   
 Accounts receivable period = 365/10.61  
 Accounts receivable period = 34.41  
   
 Operating cycle = 70.01 + 34.41  
 Operating cycle = 104.42 days

59) A

Inventory period = 365/[.78($1,620,000)/$369,000]  
 Inventory period = 106.59 days  
   
 Accounts receivable period = 365/($1,620,000/$147,000)  
 Accounts receivable period = 33.12 days  
   
 Accounts payable period = 365/[.78($1,620,000)/$438,000]  
 Accounts payable period = 126.52 days  
   
 Cash cycle = 106.59 + 33.12 − 126.52  
 Cash cycle = 13.19 days

60) C

Receivables turnover = $23,000/[($3,200 + 1,800)/2]  
 Receivables turnover = 9.2  
   
 Receivables period = 365/9.2  
 Receivables period = 39.7 days

61) A

Receivables turnover = $2,414,000/$728,000  
 Receivables turnover = 3.32  
   
 Receivables period = 365/3.32  
 Receivables period = 110.1 days

62) D

Payables turnover = [.446($437,000)]/$44,000  
 Payables turnover = 4.43  
   
 Payables period = 365/4.43  
 Payables period = 82.4 days

63) E

Payables turnover = $8,600,000/$1,000,000  
 Payables turnover = 8.6 times  
   
 Payables period = 365/8.6  
 Payables period = 42.4 days  
   
 Cash cycle = 86 − 42.4  
 Cash cycle = 43.6 days

64) B

Cash cycle = 365/15.7 + 365/20.2 − 365/14.6  
 Cash cycle = 16.32 days

65) C

New operating cycle = 54.7 − 3.2 − 1.9  
 New operating cycle = 49.6 days

66) D

Operating cycle = 37 + 3.4  
 Operating cycle = 40.4 days

67) B

Original operating cycle = 48.6 + 29.3  
 Original operating cycle = 77.9 days  
   
 New operating cycle = 48.6 + 29.3 − 17  
 New operating cycle = 60.9 days

68) E

Cash cycle = 365/16 + 37 − 47  
 Cash cycle = 12.81 days

69) A

Cash cycle = 365/15 + 365/9 − 51  
 Cash cycle = 13.89 days

70) C

Cash cycle = 36 − 4 − 1 + 2  
 Cash cycle = 33 days

71) C

Cash cycle = 43 − 2 + 1 − 3  
 Cash cycle = 39 days

72) D

Operating cycle = 365/9.4 + 46  
 Operating cycle = 84.83 days

73) A

Cash cycle = 365/8.3 + 57 − 365/7.2  
 Cash cycle = 50.28 days

74) D

Inventory period = 365/{$256,000/[($138,000 + 151,000)/2]}  
 Inventory period = 206.03 days

75) B

Inventory period = 365/{$281,000/[($154,000 + 149,000)/2]}  
 Inventory period = 196.79  
   
 Accounts receivable period = 365/{$413,000/[$46,000 + 48,000)/2]}  
 Accounts receivable period = 41.54  
   
 Accounts payable period = 365/{$281,000/[($38,000 + 36,000/2]}  
 Accounts payable period = 48.06  
   
 Cash cycle = 196.79 + 41.54 − 48.06  
 Cash cycle = 190.27 days

76) A

New cash cycle = 112 − 4 − 36  
 New cash cycle = 72 days

77) D

Accounts receivableYear end = $2,800(60/90)  
 Accounts receivableYear end = $1,866.67

78) A

March collections = 24/30(February sales) + 6/30(January sales)  
 March collections = (24/30)($1,050) + (6/30)($970)  
 March collections = $1,034

79) C

March collections = 15/30(March sales) + 15/30(February sales)  
 March collections = (15/30)($4,430) + (15/30)($2,840)  
 March collections = $3,635

80) E

April collections = March sales  
 April collections = $770

81) C

Fourth quarter collections = [(90 − 38)/90]($1,200) + (38/90)($1,900)  
 Fourth quarter collections = $1,495.56

82) B

July collections = .25(July sales) + .65(June sales) + .08(May sales)  
 July collections = .25($950) + .65($1,730) + .08($1,460)  
 July collections = $1,478.80

83) C

Quarter 2 disbursements = 45/90(Quarter 2 purchases) + 45/90(Quarter 1 purchases)  
 Quarter 2 disbursements = (45/90)(.60)(Quarter 3 sales) + (45/90)(.60)(Quarter 2 sales)  
 Quarter 2 disbursements = (45/90)(.60)($40,600) + (45/90)(.60)($34,500)  
 Quarter 2 disbursements = $22,530

84) B

Quarter 3 disbursements = 30/90(Quarter 3 purchases) + 60/90(Quarter 2 purchases)  
 Quarter 3 disbursements = (30/90)(.65)(Quarter 4 sales) + (60/90)(.65)(Quarter 3 sales)  
 Quarter 3 disbursements = (30/90)(.65)($28,800) + (60/90)(.65)($24,400)  
 Quarter 3 disbursements = $16,813.33

85) A

Cash balance = $326 − 310 + 418 − 32 − 184 + 80  
 Cash balance = $298

86) A

Cash balance = $318 − 327 − 262 + 460  
 Cash balance = $189

87) C

February collections = (15/30)($660) + (15/30)($810)  
 February collections = $735  
   
 February disbursements for payables = January purchases  
 February disbursements for payables = .70(February sales)  
 February disbursements for payables = .70($810)  
 February disbursements for payables = $567  
   
 February ending cash balance = $536 + 735 − 567 − 225  
 February ending cash balance = $479

88) C

Cash surplus = $27 − 52 − 20  
 Cash surplus = −$45  
   
 The firm needs to borrow $45.

89) E

Cumulative surplus = $22 + 38 − 20  
 Cumulative surplus = $40  
   
 The firm can repay $40 on its loan.

90) E

Amount borrowed = $138,000/(1 − .05)  
 Amount borrowed = $145,263.16  
   
 Annual interest = $145,263.16(.076)  
 Annual interest = $11,040  
   
 Effective interest rate = $11,040/$138,000  
 Effective interest rate = .0800, or 8.00%

91) E

Amount borrowed = $167,000/(1 − .015)  
 Amount borrowed = $169,543.15  
   
 Annual interest = $169,543.15(.0825)  
 Annual interest = $13,987.31  
   
 Effective interest rate = $13,987.31/$167,000  
 Effective interest rate = .0838, or 8.38%

92) D

Amount borrowed = $55,000/(1 − .025)  
 Amount borrowed = $56,410.26  
   
 Annual interest = $56,410.26(.075)  
 Annual interest = $4,230.77  
   
 Effective interest rate = $4,230.77/$55,000  
 Effective interest rate = .0769, or 7.69%

93) C

|  |  |  |
| --- | --- | --- |
| **Accounts receivable** | $ 2,215 | Source of cash |
| **Accounts payable** | 1,385 | Source of cash |
| **Inventory** | −3,885 | Use of cash |
| **Net cash flow** | −$ 285 | Use of cash |

94) E

Operating cycle = 26.0 + 33.2  
 Operating cycle = 59.2 days

95) E

Cash cycle = 21.6 + 29.0 − 31.5  
 Cash cycle = 19.1 days

96) D

Cash cycle = 55.4 − 38.9  
 Cash cycle = 16.5 days  
   
 Operating cycle = 22.8 + 32.6  
 Operating cycle = 55.4 days

97) C

Inventory turnover = $685,300/[($37,000 + 52,000)/2]  
 Inventory turnover = $685,300/$44,500  
 Inventory turnover = 15.4 times  
   
 Inventory period = 365 days/15.4  
 Inventory period = 23.70 days

98) D

Average A/R balance = $33,000(54 − 34)  
 Average A/R balance = $660,000

99) B

Inventory turnover = ($546,400 × .88)/$82,800  
 Inventory turnover = 5.8071 times  
   
 Inventory period = 365/5.8071  
 Inventory period = 62.85 days

100) B

Average receivables = ($44,000 + 48,100)/2  
 Average receivables = $46,050  
   
 Receivables turnover = $496,200/$46,050  
 Receivables turnover = 10.7752 times  
   
 Receivables period = 365/10.7752  
 Receivables period = 33.87 days

101) D

Accounts receivable turnover = $632,000/$36,900  
 Accounts receivable turnover = 17.1274 times  
   
 Accounts receivable period = 365/17.1274  
 Accounts receivable period = 21.31 days

102) C

Original inventory period = 365/10.08 = 36.21 days  
 New inventory period = 365/10.79 = 33.83 days  
   
 Change in inventory period = 36.21 days − 33.83 days  
 Change in inventory period = 2.38 day decrease

103) C

Average accounts payable = $379,700/365 × 30.8  
 Average accounts payable = $32,040.44

104) C

Accounts payable turnover = ($882,200 × .87)/$72,750  
 Accounts payable turnover = 10.5500 times  
   
 Accounts payable period = 365/10.5500  
 Accounts payable period = 34.60 days

105) E

Change in accounts payable period = (101.9 − 97.6) + 3.0  
 Change in accounts payable period = 7.3 day increase

106) A

Days' sales in inventory = 365/5.37  
 Days' sales in inventory = 117.99 days  
   
 Operating cycle = 50.02 + 117.99  
 Operating cycle = 117.99 days

107) C

Change in accounts payable period = (104.5 − 99.2) + 3.6  
 Change in accounts payable period = 8.9 day increase

108) A

Current inventory period = 365/8.56 = 42.64 days  
 Current inventory period = 365/9.82 = 37.17 days  
   
 New operating cycle = 75.60 − 42.64 + 37.17  
 New operating cycle = 70.13 days

109) A

Cash cycle = (365/25.98) + (365/8.52) − (365/14.57)  
 Cash cycle = 31.84 days

110) A

Since the A/R period is 60 days, March collections will equal January sales.  
   
 March collections = $430

111) D

Q2 payments = 2/3 × Q1 purchases + 1/3 × Q2 purchases  
   
 Q2 payments = 2/3 × (.60 × Q2 sales) + 1/3 × (.60 × Q3 sales)  
   
 Q2 payments = 2/3 × (.60 × $117,000) + 1/3(.60 × $109,000) = $68,600

112) D

Q2 accounts receivable = (80/90) × $17,700  
 Q2 accounts receivable = $15,733.33

113) D

Q1 collections = $345 + (90 − 45)/90 × $620  
 Q1 collections = $655.00

114) C

Q1 collections = $1,025 + (90 − 60)/90 × $1,695  
 Q1 collections = $1,590.00

115) A

The operating cycle will remain at 145 days.  
   
 New cash cycle = 62 + 39 − 10  
 New cash cycle = 91 days

116) E

Q3 collections = 60/90($4,305) + 30/90($4,715)  
 Q3 collections = $4,441.67

117) A

April collections = .32($166,750) + .49($151,975) + .17($145,025)  
 April collections = $152,482

118) D

Q2 payments = 60/90(.25)($13,550) + 30/90(.25)($14,375)  
 Q2 payments = $3,456.25

119) E

Q3 payments = 30/90(.30)($69,375) + 60/90(.30)($74,850)  
 Q3 payments = $21,907.50

120) E

Q2 accounts payable balance = 30/90(.60)($69,825)  
 Q2 accounts payable balance = $13,965

121) B

Q3 accounts payable balance = 60/90(.61)($94,560)  
 Q3 accounts payable balance = $38,454

122) B

Effective rate = (1 + 2.3/97.7)365/45 − 1  
 Effective rate = .2077, or 20.77%

123) D

Cash cycle = (365/16.9) + (365/8.7) − (365/10.2)  
 Cash cycle = 27.77 days

124) C

Q3 payments = 43/90(.63 × $34,000) + [(90 − 43)/90](.63 × $41,900)  
 Q3 payments = $24,019

125) C

May disbursements = (.69 × $8,300) + $2,350 + 480  
 May disbursements = $8,557

126) B

EAR without compensating balance = (1 + .00629)12 − 1  
 EAR without compensating balance = .0781, or 7.81%  
   
 EAR with compensating balance = .0781/(1 − .03)  
 EAR with compensating balance = .0806, or 8.06%

127) E

Amount to borrow = $30,000,000/(1 − .04)  
 Amount to borrow = $31,250,000.00  
   
 Total interest paid = $31,250,000.00(1 + .00629)7 − $31,250,000.00  
 Total interest paid = $1,402,175.35

128) B

EAR = (1 + .0043)4 − 1  
 EAR = .0173, or 1.73%

129) B

Opportunity cost = .03($77,000,000 − 42,000,000)(1.0060)4 − .03($77,000,000 − 42,000,000)  
 Opportunity cost = $25,427.71  
   
 Interest expense = $42,000,000(1.0146)4 −$42,000,000  
 Interest expense = $2,507,041.07  
   
 EAR = ($25,427.71 + 2,507,041.07)/$42,000,000  
 EAR = .0603, or 6.03%

130) B

EAR = (1.0148)4 − 1)/(1 − .05)  
 EAR = .0637, or 6.37%

131) B

Inventory turnover = ($669,200 × .67)/[($118,600 + 133,700)/2]  
 Inventory turnover = 3.55 times

132) C

Inventory turnover = ($632,000 × .66)/[($107,800 + 120,500)/2]  
 Inventory turnover = 3.65 times  
   
 Inventory period = 365/3.65  
 Inventory period = 99.89 days

133) C

Implicit interest = $17,200(.02)  
 Implicit interest = $344

134) A

Effective annual rate = [1 + (.01/(.99))]365/15 − 1  
 Effective annual rate = .2771, or 27.71%

135) A

Total sale = 1,040($148)  
 Total sales = $153,920  
   
 Average collection period = .76(10) + .24(35)  
 Average collection period = 16.00 days  
   
 Receivables turnover = 365/16.00  
 Receivables turnover = 22.8125  
   
 Accounts receivable = $153,920/22.8125  
 Accounts receivable = $6,747.18

136) C

Average collection period = .78(10) + .22(35)  
 Average collection period = 15.50 days

137) E

Accounts receivable turnover = 365/21.46  
 Accounts receivable turnover = 17.0084 times  
   
 Average accounts receivable = $389,000/17.0084  
 Average accounts receivable = $22,871.07

138) D

Accounts receivable turnover = 365/24.11  
 Accounts receivable turnover = 15.1389 times  
   
 Credit sales = 15.1389($389,000)  
 Credit sales = $5,889,050.19

139) A

Accounts receivable turnover = $4,250,000/$345,000  
 Accounts receivable turnover = 12.3188 times  
   
 Days' sales in receivables = 365/12.3188  
 Days' sales in receivables = 29.63 days

140) B

141) E

142) C

143) E

144) C

145) C

146) E

147) D

148) E

149) A

150) D

151) E

152) D

153) A

154) A

155) A

156) D

157) D

158) B

159) A

160) B

161) B

162) B

163) A

164) A

165) B

166) C

167) D

168) E

169) C

170) D

171) D

172) A

173) B

174) A

175) A

176) B

177) B

178) A

179) A

180) E

181) A

182) B

183) B

184) C

185) A

186) D

187) A

188) B

189) D

190) D

191) E

192) B

193) D

194) A

195) A

196) B

Inventory turnover = $12,400/[($1,400 + 1,000)/2]  
 Inventory turnover = 10.33  
 Inventory period = 365/10.33  
 Inventory period = 35.3 days

197) B

Inventory turnover = $762,000/[($138,000 + 154,300)/2]  
 Inventory turnover = 5.21 times  
   
 Inventory period = 365/5.21  
 Inventory period = 70.01 days  
   
 Accounts receivable turnover = $927,000/$87,400  
 Accounts receivable turnover = 10.61  
   
 Accounts receivable period = 365/10.61  
 Accounts receivable period = 34.41  
   
 Operating cycle = 70.01 + 34.41  
 Operating cycle = 104.42 days

198) A

Inventory period = 365/[.78($1,620,000)/$369,000]  
 Inventory period = 106.59 days  
   
 Accounts receivable period = 365/($1,620,000/$147,000)  
 Accounts receivable period = 33.12 days  
   
 Accounts payable period = 365/[.78($1,620,000)/$438,000]  
 Accounts payable period = 126.52 days  
   
 Cash cycle = 106.59 + 33.12 − 126.52  
 Cash cycle = 13.19 days

199) C

Receivables turnover = $23,000/[($3,200 + 1,800)/2]  
 Receivables turnover = 9.2  
   
 Receivables period = 365/9.2  
 Receivables period = 39.7 days

200) A

Receivables turnover = $2,414,000/$728,000  
 Receivables turnover = 3.32  
   
 Receivables period = 365/3.32  
 Receivables period = 110.1 days

201) D

Payables turnover = [.446($437,000)]/$44,000  
 Payables turnover = 4.43  
   
 Payables period = 365/4.43  
 Payables period = 82.4 days

202) E

Payables turnover = $8,600,000/$1,000,000  
 Payables turnover = 8.6 times  
   
 Payables period = 365/8.6  
 Payables period = 42.4 days  
   
 Cash cycle = 86 − 42.4  
 Cash cycle = 43.6 days

203) B

Cash cycle = 365/15.7 + 365/20.2 − 365/14.6  
 Cash cycle = 16.32 days

204) C

New operating cycle = 54.7 − 3.2 − 1.9  
 New operating cycle = 49.6 days

205) D

Operating cycle = 37 + 3.4  
 Operating cycle = 40.4 days

206) B

Original operating cycle = 48.6 + 29.3  
 Original operating cycle = 77.9 days  
   
 New operating cycle = 48.6 + 29.3 − 17  
 New operating cycle = 60.9 days

207) E

Cash cycle = 365/16 + 37 − 47  
 Cash cycle = 12.81 days

208) A

Cash cycle = 365/15 + 365/9 − 51  
 Cash cycle = 13.89 days

209) C

Cash cycle = 36 − 4 − 1 + 2  
 Cash cycle = 33 days

210) C

Cash cycle = 43 − 2 + 1 − 3  
 Cash cycle = 39 days

211) D

Operating cycle = 365/9.4 + 46  
 Operating cycle = 84.83 days

212) A

Cash cycle = 365/8.3 + 57 − 365/7.2  
 Cash cycle = 50.28 days

213) D

Inventory period = 365/{$256,000/[($138,000 + 151,000)/2]}  
 Inventory period = 206.03 days

214) B

Inventory period = 365/{$281,000/[($154,000 + 149,000)/2]}  
 Inventory period = 196.79  
   
 Accounts receivable period = 365/{$413,000/[$46,000 + 48,000)/2]}  
 Accounts receivable period = 41.54  
   
 Accounts payable period = 365/{$281,000/[($38,000 + 36,000/2]}  
 Accounts payable period = 48.06  
   
 Cash cycle = 196.79 + 41.54 − 48.06  
 Cash cycle = 190.27 days

215) A

New cash cycle = 112 − 4 − 36  
 New cash cycle = 72 days

216) D

Accounts receivableYear end = $2,800(60/90)  
 Accounts receivableYear end = $1,866.67

217) A

March collections = 24/30(February sales) + 6/30(January sales)  
 March collections = (24/30)($1,050) + (6/30)($970)  
 March collections = $1,034

218) C

March collections = 15/30(March sales) + 15/30(February sales)  
 March collections = (15/30)($4,430) + (15/30)($2,840)  
 March collections = $3,635

219) E

April collections = March sales  
 April collections = $770

220) C

Fourth quarter collections = [(90 − 38)/90]($1,200) + (38/90)($1,900)  
 Fourth quarter collections = $1,495.56

221) B

July collections = .25(July sales) + .65(June sales) + .08(May sales)  
 July collections = .25($950) + .65($1,730) + .08($1,460)  
 July collections = $1,478.80

222) C

Quarter 2 disbursements = 45/90(Quarter 2 purchases) + 45/90(Quarter 1 purchases)  
 Quarter 2 disbursements = (45/90)(.60)(Quarter 3 sales) + (45/90)(.60)(Quarter 2 sales)  
 Quarter 2 disbursements = (45/90)(.60)($40,600) + (45/90)(.60)($34,500)  
 Quarter 2 disbursements = $22,530

223) B

Quarter 3 disbursements = 30/90(Quarter 3 purchases) + 60/90(Quarter 2 purchases)  
 Quarter 3 disbursements = (30/90)(.65)(Quarter 4 sales) + (60/90)(.65)(Quarter 3 sales)  
 Quarter 3 disbursements = (30/90)(.65)($28,800) + (60/90)(.65)($24,400)  
 Quarter 3 disbursements = $16,813.33

224) A

Cash balance = $326 − 310 + 418 − 32 − 184 + 80  
 Cash balance = $298

225) A

Cash balance = $318 − 327 − 262 + 460  
 Cash balance = $189

226) C

February collections = (15/30)($660) + (15/30)($810)  
 February collections = $735  
   
 February disbursements for payables = January purchases  
 February disbursements for payables = .70(February sales)  
 February disbursements for payables = .70($810)  
 February disbursements for payables = $567  
   
 February ending cash balance = $536 + 735 − 567 − 225  
 February ending cash balance = $479

227) C

Cash surplus = $27 − 52 − 20  
 Cash surplus = −$45  
   
 The firm needs to borrow $45.

228) E

Cumulative surplus = $22 + 38 − 20  
 Cumulative surplus = $40  
   
 The firm can repay $40 on its loan.

229) E

Amount borrowed = $138,000/(1 − .05)  
 Amount borrowed = $145,263.16  
   
 Annual interest = $145,263.16(.076)  
 Annual interest = $11,040  
   
 Effective interest rate = $11,040/$138,000  
 Effective interest rate = .0800, or 8.00%

230) E

Amount borrowed = $167,000/(1 − .015)  
 Amount borrowed = $169,543.15  
   
 Annual interest = $169,543.15(.0825)  
 Annual interest = $13,987.31  
   
 Effective interest rate = $13,987.31/$167,000  
 Effective interest rate = .0838, or 8.38%

231) D

Amount borrowed = $55,000/(1 − .025)  
 Amount borrowed = $56,410.26  
   
 Annual interest = $56,410.26(.075)  
 Annual interest = $4,230.77  
   
 Effective interest rate = $4,230.77/$55,000  
 Effective interest rate = .0769, or 7.69%

232) There are several activities that will increase cash balances. An example of each activity is given in parenthesis. Activities that increase cash include increasing long-term debt (borrowing over the long-term), increasing equity (selling some stock), increasing current liabilities (obtaining a 90-day loan), decreasing current assets other than cash (selling some inventory for cash), and decreasing fixed assets (selling some equipment). Activities that decrease cash include decreasing long-term debt (paying off a long-term loan), decreasing equity (repurchasing some stock), decreasing current liabilities (paying off a 90-day loan), increasing current assets other than cash (buying some inventory with cash), and increasing fixed assets (buying some property).

233) The obvious results of this policy change include an increase in expected sales (due to the lower effective purchase price for customers that pay early) and a reduction in gross profit per unit associated with offering the rebates. Less obvious are such effects as the potential reduction in the firm’s average receivables balance (and the cost of carrying receivables), as well as reduced operating and cash cycles.

234) The three characteristics are:  
 1.Low cash balances and no investments in marketable securities  
 2.Low levels of inventory  
 3.No credit sales and thus no accounts receivable.

235) The three types discussed are blanket lien, trust receipts, and field warehouse financing. The blanket lien is certainly the easiest for the firm since the lender just places a lien against all the firm’s inventory and the borrower typically does not have to give the lender precise lists of what constitutes inventory on a regular basis. Trust receipt financing requires the borrower and lender to specify the exact inventory that backs up each cash advance. This can be a time-consuming type of financing for the firm but is used for large, easily identifiable inventory items such as vehicles and boats. Field warehouse financing requires an independent company supervise and frequently store the collateral for the lender.

236) From a lender’s standpoint, these assets can make inadequate collateral precisely due to their liquidity. They tend to be assets that are difficult to take a specific security interest in, plus they are easily converted into cash. If a firm runs into financial distress, it is not uncommon for the firm to convert its good receivables and most marketable inventory into cash. If the lender is not monitoring the situation closely, it may find that by the time it becomes obvious the business won’t survive, all the good receivables and inventory are gone, leaving a pool of “liquid” assets that have questionable market value.

237) Credit lines are flexible lending arrangements that allow firms to borrow funds quickly as the funds are needed. As long as the firm has an outstanding loan balance that is less than the credit line, the firm can borrow as frequently as needed up to the maximum amount. This flexibility and quick access to funds provides a great benefit to the firm. Because of these benefits, the firm is willing to provide a compensating balance as a form of payment to the provider of these benefits.

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