STIONS

(12-1) Define each of the following terms:

a. Operating plan; financial plan
b. Spontaneous liabilities; profit margin; payout ratio
c. Additional funds needed (AFN); AFN equation; capital intensity ratio; self-supporting growth rate
d. Forecasted financial statement approach using percent of sales
e. Excess capacity; lumpy assets; economies of scale
f. Full capacity sales; target fixed assets/sales ratio; required level of fixed assets

12-3) The following equation is sometimes used to forecast financial requirements:

$$AFN = (A_0^*/S_0)(\Delta S) - (L_0^*/S_0)(\Delta S) - MS_1(1 - POR)$$

What key assumption do we make when using this equation? Under what conditions might this assumption not hold true?

(12-4) Name five key factors that affect a firm's external financing requirements.

(12-5) What is meant by the term "self-supporting growth rate"? How is this