Week 5: Week 5 - W5 Assignment 2

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HELP

DROPBOX DELIVERY REQUIRED

Please use the appropriate basket in the Dropbox area to deliver materials required for this assignment.

Assignment 2: Working Capital Management, EOQ, and External Funds

Part One: Working Capital Analysis

Capers, Inc. has just promoted you to Chief financial officer. Since this is a new office in the company, you are understaffed and many of the responsibilities have been assigned to you.

The first task you have been assigned concerns the cash conversion cycle. Your boss has asked that you examine the following data:

1. Inventory conversion period is 60 Days
2. Payables deferral period is 30 days
3. Receivables collection period of 40 days

The second task concerns the cost of bank loans under differing conditions. Specifically:

1. The company needs $1,500,000 for a new project.
2. The loan will cost 10% simple interest, for 4 months, with a 20% compensating balance.

Required:

1. What is the firm's cash conversion cycle?
2. How many times per year is the firm's inventory turnover, if sales are $4,000,000 per year?
3. If sales are all credit sales and amount to $4,000,000 per year, what is the firm's average investment in receivables?
4. What is the nominal interest rate on the loan?

Part Two: Cash Budget

Capers, Inc. is developing its cash budget for the next year. Of Capers' sales, 20% is for cash, another 60% is collected in the month following sale, and 20% is collected in the second month following sale. November and December sales for 2010 were $229000 and $250,000, respectively.

Capers' purchases its raw materials two months in advance of its sales equal to 70% of its final sales price. The supplier is paid one month after it makes delivery. For example, purchases for April sales are made in February, and payment is made in March.

In addition, Capers pays $10,000 per month for rent and $20,000 each month for other expenditures. Tax prepayments for $32,000 are made each quarter beginning in March.

The company's cash balance at December 31, 2010, was $26,000 and minimum balance of $25,000 must be maintained at all times. Assume that any short-term financing needed to maintain cash balance would be paid off in the month following the month of financing if sufficient funds are available.

Interest on short-term loans (12%) is paid monthly. Borrowing to meet estimated monthly cash needs takes place at the beginning of the month. For example, if in the month of April the firm expects to have a need for an additional $60,500, these funds would be borrowed at the beginning of April with interest of $605 (.12 x 1/12 x $60,500) owed for April and paid at the beginning of May.

Sales for Capers Inc.:

January	$229,000
February	$250,000
March	$270,000
April	$275,000
May	$280,000
June	$290,000
July	$280,000
August	$260,000

Required:

- Prepare a monthly cash budget for Capers Inc. covering the first 7 months of 2010.

Part Three: EOQ

Capers Inc. is also initiating an inventory management program using EOQ. Capers needs fastener supplies to manufacture its products. The CFO estimates that the company will need about 250,000 cases next year. The cost of storing cases is about $1.10 each. The ordering cost is $400 for a shipment.

Required:

1. What is the EOQ?
2. How many times will you order?
3. What are the shortcomings of the EOQ? What is your rationale?

Deliverables:

- By **Tuesday, June 14, 2016**, complete the requirements for Parts One, Two, and Three above. Submit your results to the **W5: Assignment 2 Dropbox** in a Microsoft Excel document showing all calculations, and in good form.

Name your document(s) SU_FIN3030_W5_A2 _LastName_FirstInitial.

Assignment 2 Grading Criteria	**Maximum Points**
Correctly identified the cash conversion cycle.	25

Correctly identified the inventory turnover.	15
Correctly identified the investment in receivables.	15
Correctly calculated the nominal interest rate on the loan, if a loan is needed.	20
Correctly calculated the cash budget.	75
Identified the EOQ.	20
Determined the number of times per year orders would be placed and the total costs of doing so.	20
Identified the shortcomings of the EOQ model.	10
Correctly determined if the funds for the July notes were available.	20
Correctly determined if external funding is required and how much.	30
Wrote in a clear, concise, and organized manner; demonstrated ethical scholarship in accurate representation and attribution of sources; displayed accurate spelling, grammar, and punctuation.	20
Total:	**250**