MANAGEMENT 325
First Test

This is a test of your comprehension of the key concepts covered in this section of the course. You may answer any three of the four questions. There is no extra credit for answering all four. In writing your essay assume you are writing for someone who knows nothing about the subject. Tell them what they need to know in order to understand the concept. Illustrate the point with an example showing the idea in action. Do the math. This is an open-book, open-note test. The book and your notes are for reference only. Each essay must be in your own words expressing your thoughts. Good Luck.

1. What is meant by saying debt is tax-favored? What is the benefit to the firm? What are the risks? (DO THE MATH)

2. Explain(show) how the Cash Flow statement is constructed. What should we see if the company is well run? (DO THE MATH)

3. What is the Average Collection Period (AKA Days Sales Outstanding)? How is it calculated? Why is it important to the Firm? (DO THE MATH)

4. What is the benefit to the firm of organizing as a corporation rather than a partnership?