

ARBA MINCH UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING & FINANCE

Assessment and tutorial classes unit

1. Student's Name _____
2. Id No _____
3. Program _____
4. Course Title and Code _____
5. Center _____
6. Points number: _____
7. Tutor's Name and signature _____

Tutor marked Assignment for: Financial Management II

This is a tutor marked assignment you are expected to do on your own. It accounts 30%. The tutor marked assignment should be completed and submitted to Arba Minch University distance education coordination office for evaluation.

Do not try to complete the assignment until you have covered all the lesson and exercises in the course material.

Part I: Workout Questions

Show all the necessary steps. Write the answer on a separate answer sheet. Clear presentation worth credit

1. EYAYU Company has experienced a stochastic demand for its product, which results in fluctuating cash balances randomly. The following information is supplied from the company's information: Fixed cost of securities transactions is Br.100; Variance of daily net cash flows is Br. 1,000; and daily interest rate on securities is 6%.
Required: Determine the optimal cash balance, upper and lower limit of cash need, and average cash balance. (Use the Miller-Orr Model) **(2 points)**
2. The xyz Corporation has cash outflows of \$100 per day, seven days a week. The interest rate is 5 percent, and the fixed cost of replenishing cash balances is \$10 per transaction. What is the optimal initial cash balance? What is the total cost? **(2 points)**

3. Consider the following financial statement information for the Glory Road Company:

Item	Beginning	Ending
Inventory	\$1,543	\$1,669
Accounts receivable	4,418	3,952
Accounts payable	2,551	2,673
Net sales		\$11,500
Cost of goods sold		8,200

Required: Calculate the operating and cash cycles (6 points)

4. On a typical business day, a firm writes and mails cheques totaling \$1,000. These cheques clear in six days on average. Simultaneously, the firm receives \$1,300. The cash is available in one day on average. Calculate the disbursement float, the collection float, and the net float. How do you interpret the answer? (4 points)
5. You are trying to decide whether or not to extend credit to a particular customer. Your variable cost is \$10 per unit; the selling price is \$14. This customer wants to buy 100 units today and pay in 60 days. You think there is a 10 percent chance of default. The required return is 3 percent per 60 days. Should you extend credit? Assume this is a onetime sale and the customer will not buy if credit is not extended. (4 points)
6. Odium Manufacturing uses 2500 switch assemblies per week and then reorders another 2500. If the relevant carrying cost per switch assembly is \$7.50, and the fixed order cost is \$1,300. **Required:** Calculate EOQ. Is Odium's inventory policy optimal? Why or why not? (4 points)
7. Humphrey Inc. expects to sell 700 of its designer suits every week. The store is open seven days a week and expects to sell the same number of suits every day. The company has an EOQ of 500 suits and a safety stock of 100 suits. Once an order is placed, it takes three days for Humphrey to get the suits in. How many orders does the company place per year? Assume that it is Monday morning before the store opens, and a shipment of suits has just arrived. When will Humphrey place its next order? (4 points)
8. McDowell Industries sells on terms of 3/10, net 30. Total sales for the year are \$912,500. Forty percent of the customers pay on the 10th day and take discounts; the other 60 percent pay, on average, 40 days after their purchases. (4 points)
- What is the day's sales outstanding?
 - What is the average amount of receivables?
 - What would happen to average receivables if McDowell toughened up on its collection policy with the result that all no discount customers paid on the 30th day?