

Chapter 17—Cash, Payables, and Liquidity Management

MULTIPLE CHOICE

1. The amount of time that it takes for a check to clear through the banking system is called
- mail float
 - processing float
 - clearing float
 - delivery float

ANS: C PTS: 1 DIF: E REF: 17.1 Cash Management
NAT: Reflective thinking
LOC: acquire knowledge of financial analysis and cash flows

2. Funds that have been sent by the payer, but are not yet usable by the payee are called
- tax balance
 - ledger balance
 - float
 - d.** none of the above

ANS: C PTS: 1 DIF: E REF: 17.1 Cash Management
NAT: Reflective thinking
LOC: acquire knowledge of financial analysis and cash flows

3. The collection, concentration, and disbursement of funds for the company is called
- target cash balance
 - cash position management
 - bank account analysis
 - d.** none of the above

ANS: B PTS: 1 DIF: E REF: 17.1 Cash Management
NAT: Reflective thinking
LOC: acquire knowledge of financial analysis and cash flows

4. A collection system that is characterized by many collection points with each having a depository account at a local bank is called
- field banking system
 - mail based collection system
 - electronic invoice presentment and payment system
 - electronic bill presentment and payment system

ANS: A PTS: 1 DIF: E REF: 17.2 Collections
NAT: Reflective thinking
LOC: acquire knowledge of financial analysis and cash flows

5. A collection system that is characterized by many collection points with each having a depository account at a local bank is called
- field banking system
 - mail based collection system
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ANS: A PTS: 1 DIF: E REF: 17.2 Collections
NAT: Reflective thinking

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6. Special post office boxes set up by the firm to expedite the receipt and processing of its accounts receivables are called
- a. safety-deposit boxes
 - b. lockboxes
 - c. float reducers
 - d. none of the above**

ANS: B

PTS: 1

DIF: E

REF: 17.2 Collections

NAT: Reflective thinking

LOC: acquire knowledge of financial analysis and cash flows

NARRBEGIN: Bavarian Brew Float

Bavarian Brew Float

Bavarian Brew receives about 350 checks a day with an average check size of \$550. Currently customer's payments spend 2 days in the mail. Once a check is received it takes about 1.5 days to process it and another 4 days to clear the banking system. The firm's opportunity cost is 10%. Assume a 365-day year.

NARREND

7. What is Bavarian Brew's collection float?
- a. 4 days
 - b. 2 days
 - c. 1.5 days
 - d. 7.5 days

ANS: A

$$2 + 1.5 + 4 = 7.5$$

PTS: 1

DIF: E

REF: 17.1 Cash Management

NAT: Analytic skills

LOC: acquire knowledge of financial analysis and cash flows

8. What is the availability float of Bavarian Brew?
- a. 2 days
 - b. 4 days
 - c. 7.5 days
 - d. 1.5 days

ANS: B

PTS: 1

DIF: E

REF: 17.1 Cash Management

NAT: Analytic skills

LOC: acquire knowledge of financial analysis and cash flows

9. Bavarian Brew is contemplating implementing a collection system that would decrease the collection float by 2.5 days. What would be the annual benefit of that system?
- a. \$481,250
 - b. \$48,125
 - c. \$96,250
 - d. \$75,480

ANS: B

$$\text{reduction in float value} = 2.5(350)(550)(.10) = 48125$$

PTS: 1

DIF: M

REF: 17.2 Collections

NAT: Analytic skills

LOC: acquire knowledge of financial analysis and cash flows

10. Bavarian Brew is contemplating implementing a lockbox system that would decrease the collection float by 2 days. What would be the most the company should be willing to pay on an annual basis for the system?
- a. \$96,250
 - b. \$482,500
 - c. \$38,500
 - d. \$48,125

ANS: C

$$2(350)(550)(.10) = 38,500$$

PTS: 1

DIF: M

REF: 17.2 Collections

NAT: Analytic skills

LOC: acquire knowledge of financial analysis and cash flows

11. Bavarian Brew is contemplating implementing a lockbox system. If the system has an annual cost of \$60,000, by how many days would the float have to be reduced for the company to implement the system?
- a. 2.52 days
 - b. 3.12 days
 - c. 3.75 days
 - d. 4.74 days

ANS: B

$$x(350)(550)(.10) = 60000$$

$$x = 3.12$$

PTS: 1

DIF: M

REF: 17.2 Collections

NAT: Analytic skills

LOC: acquire knowledge of financial analysis and cash flows

NARRBEGIN: Bavarian Cash Transfer

Bavarian Sausage Cash Transfer

Bavarian Sausage needs to transfer \$250,000 from its deposit account into its concentration account. The company could do it with an EDT which would cost \$1.50 or a wire transfer for \$17. The wire transfer would result in the funds being deposited in the concentration account 2 days earlier. The firm's opportunity cost is 10% and we assume a 360 day year.

NARREND

12. What is the benefit for Bavarian Sausage from using the wire transfer?
- a. \$138.89
 - b. \$69.44
 - c. \$109.57
 - d. \$53.61

ANS: A

$$\text{marginal benefit} = 250,000(10/180) = 138.89$$

PTS: 1

DIF: M

REF: 17.2 Collections

NAT: Analytic skills

LOC: acquire knowledge of financial analysis and cash flows

13. What is the net benefit for Bavarian Sausage from using the wire transfer?

- a. \$53.01
- b. \$137.89
- c. \$60.95
- d. \$121.89

ANS: D

$$138.89 - 17 = 121.89$$

PTS: 1

DIF: E

REF: 17.2 Collections

NAT: Analytic skills

LOC: acquire knowledge of financial analysis and cash flows

14. What is the minimum transfer amount for which the transfer would be beneficial for Bavarian Sausage?

- a. \$55,800
- b. \$27,900
- c. \$13,850
- d. \$41,950

ANS: B

$$15.50 / (.1 / 180) = 27,900$$

PTS: 1

DIF: M

REF: 17.2 Collections

NAT: Analytic skills

LOC: acquire knowledge of financial analysis and cash flows

15. Your supplier offers you trade terms of 3/10 net 40. What is the implicit interest that you pay on the trade credit if you do not take the discount?

- a. 37.63%
- b. 0%
- c. 36.50%
- d. 28.22%

ANS: A

$$r = (.03 / .97) (365 / (40 - 10)) = .3763$$

PTS: 1

DIF: M

REF: 17.3 Accounts Payable and Disbursements

NAT: Analytic skills

LOC: acquire knowledge of financial analysis and cash flows

16. You are contemplating purchasing a \$1,000,000 181 day T-Bill that is selling at a discount of 4.25%. What is the dollar discount on the T-Bill?

- a. \$21,368.06
- b. \$42,500
- c. \$38,845.26
- d. \$19,367.51

ANS: A

$$(1000000)(.0425)(181/360) = 21368.06$$

PTS: 1

DIF: M

REF: 17.4 Short-Term Investing and Borrowing

NAT: Analytic skills

LOC: understand stocks and bonds

17. You are contemplating purchasing a \$1,000,000 181 day T-Bill that is selling at a discount of 4.25%. What is the purchase price of the T-Bill?
- a. \$21,368.06
 - b. \$978,631.94
 - c. \$1,000,000
 - d. \$954,621.52

ANS: B

$$\text{discount} = (1000000)(.0425)(181/360) = 21368.06$$

$$\text{pp} = 1,000,000 - 21368.06 = 978631.94$$

PTS: 1

DIF: M

REF: 17.4 Short-Term Investing and Borrowing

NAT: Analytic skills

LOC: understand stocks and bonds

18. You are contemplating purchasing a \$1,000,000 181 day T-Bill that is selling at a discount of 4.25%. What is the money market yield of the T-Bill?
- a. 4.34%
 - b. 4.25%
 - c. 4.40%
 - d. 4.15%

ANS: A

$$\text{discount} = 21368.06$$

$$\text{pp} = 978631.94$$

$$\text{MMY} = (21368.06/978631.94)(360/181) = 0.0434$$

PTS: 1

DIF: M

REF: 17.4 Short-Term Investing and Borrowing

NAT: Analytic skills

LOC: acquire knowledge of financial markets and interest rates

19. You are contemplating purchasing a \$1,000,000 181 day T-Bill that is selling at a discount of 4.25%. What is the bond market yield of the T-Bill?
- a. 4.25%
 - b. 4.34%
 - c. 4.40%
 - d. 4.15%

ANS: C

$$0.0434(365/360) = .0440$$

PTS: 1

DIF: M

REF: 17.4 Short-Term Investing and Borrowing

NAT: Analytic skills

LOC: acquire knowledge of financial markets and interest rates

20. Smith Enterprise has a one year credit line of \$5,000,000 with Second Bank. On average Smith uses half of the credit line. Second Bank charges a .67% commitment fee on the unused portion of the line and the interest rate is set at LIBOR +2%. Assuming that the LIBOR is currently at 4.3%, what is Smith's effective borrowing rate?
- a. 6.97%
 - b. 6.30%
 - c. 7.21%
 - d. 5.98%

ANS: A

$$\{(.063 \times 2500000) + (.0067 \times (5000000 - 2500000))\} / 2500000 \times (365/365) = .0697$$

PTS: 1 DIF: M REF: 17.4 Short-Term Investing and Borrowing
NAT: Analytic skills
LOC: acquire knowledge of financial markets and interest rates

NARRBEGIN: Smith Credit line

Smith Enterprise Credit Line

Smith Enterprise has a one year credit line of \$5,000,000 with Second Bank. On average Smith uses \$3,250,000 of the credit line. Second Bank charges a .45% commitment fee on the unused portion of the line and the interest rate is set at LIBOR +1.5%. The bank also requires a 5% compensating balance.

NARREND

21. What is the most that Smith can effectively borrow against the line without having to deposit additional funds with the bank?
- a. \$5,000,000
 - b. \$4,255,374
 - c. \$4,586,408
 - d. \$4,761,905

ANS: D
 $5000000/(1+.05) = 4761905$

PTS: 1 DIF: M REF: 17.4 Short-Term Investing and Borrowing
NAT: Analytic skills
LOC: acquire knowledge of financial analysis and cash flows

22. If Smith needs to borrow \$3,250,000, what is the effective borrowing rate if the LIBOR equals 6.3%?
- a. 8.62%
 - b. 8.04%
 - c. 7.59%
 - d. 8.43%

ANS: D
loan out = $3250000/(1-.05) = 3421053$ (incl. comp balance)
 $EBB = \{(.078 \times 3421053) + [.0045(5000000 - 3421053)]\} / 3250000 \times 365/365 = .0843$

PTS: 1 DIF: H REF: 17.4 Short-Term Investing and Borrowing
NAT: Analytic skills
LOC: acquire knowledge of financial markets and interest rates

NARRBEGIN: Smith Credit Ln -w/o comp

Smith Enterprise Credit line (w/o comp)

Smith Enterprise has an one year credit line of \$5,000,000 with Second Bank. On average Smith uses \$3,250,000 of the credit line. Second Bank charges a .45% commitment fee on the unused portion of the line and the interest rate is set at LIBOR +1.5%. Assume that the LIBOR is 6.3%

NARREND

23. What is Smith's effective borrowing rate?
- a. 8.45%
 - b. 7.59%
 - c. 8.04%
 - d. 7.80%

ANS: B

$$\text{EBR} = \{.078(3250000) + [(.0045(5000000 - 3250000))]\} / 3250000 \times 365/365 = .0804$$

PTS: 1

DIF: M

REF: 17.4 Short-Term Investing and Borrowing

NAT: Analytic skills

LOC: acquire knowledge of financial markets and interest rates

24. Refer to Smith Enterprise Credit line (w/o comp). If you only borrowed \$2,000,000 against the line, what would be your effective borrowing rate?
- a. 7.80%
 - b. 8.04%
 - c. 8.45%
 - d. 8.48%

ANS: A

$$\text{EBR} = \{.078(2000000) + [(.0045(5000000 - 2000000))]\} / 2000000 \times 365/365 = .0848$$

PTS: 1

DIF: M

REF: 17.4 Short-Term Investing and Borrowing

NAT: Analytic skills

LOC: acquire knowledge of financial markets and interest rates

25. Refer to Smith Enterprise Credit line (w/o comp). What is the change in your EBR if you only borrow \$2,000,000 instead of \$3,250,000?
- a. increases by .44%
 - b. decreases by .44%
 - c. does not change
 - d. increases by .78%

ANS: A

at 2.5M: 8.48%

at 3.25M: 8.04%

change 8.48-8.04 = .44

PTS: 1

DIF: M

REF: 17.4 Short-Term Investing and Borrowing

NAT: Analytic skills

LOC: acquire knowledge of financial markets and interest rates

26. Refer to Smith Enterprise Credit line (w/o comp). What would be the effective borrowing rate if you exhausted your line of credit?
- a. 8.04%
 - b. 7.80%
 - c. 8.48%
 - d. 8.21%

ANS: A

$$\{.078(5000000) + (.0045(5000000 - 5000000))\} / 5000000 \times 365/365 = .078$$

PTS: 1

DIF: M

REF: 17.4 Short-Term Investing and Borrowing

NAT: Analytic skills

LOC: acquire knowledge of financial markets and interest rates

27. Most money market mutual funds set their net asset value at a fixed ____ per share.
- a. \$1
 - b. \$10
 - c. \$100

d. \$1,000

ANS: A PTS: 1 DIF: E

REF: 17.4 Short-Term Investing and Borrowing

NAT: Reflective thinking

LOC: acquire knowledge of financial markets and interest rates

28. The cash manager should seek to
- maximize disbursement float and maximize collection float.
 - minimize disbursement float and minimize collection float.
 - maximize disbursement float and minimize collection float.
 - minimize disbursement float and maximize collection float.

ANS: C PTS: 1 DIF: E

REF: 17.1 Cash Management

NAT: Reflective thinking

LOC: acquire knowledge of financial analysis and cash flows

29. Which of the following has the greatest potential to be the longest?
- mail float
 - processing float
 - availability float
 - clearing float

ANS: A PTS: 1 DIF: E

REF: 17.1 Cash Management

NAT: Reflective thinking

LOC: acquire knowledge of financial analysis and cash flows

30. A major retail firm like Walmart or Target would most likely **not** use
- point of sale information systems
 - a cash concentration bank
 - lock boxes
 - d.** any of the above

ANS: C PTS: 1 DIF: E

REF: 17.2 Collections

NAT: Reflective thinking

LOC: acquire knowledge of financial analysis and cash flows

31. A producer of specialty electronic components is located in Arkansas, while many of its customers are located in California, Texas, and Florida. This company may seek to use
- electronic invoice presentment and bill paying.
 - lock boxes.
 - concentration banks.
 - d.** all of the above.

ANS: D PTS: 1 DIF: E

REF: 17.2 Collections

NAT: Reflective thinking

LOC: acquire knowledge of financial analysis and cash flows

32. The benefit(s) of a lock box system include
- reduction of mail float.
 - reduction of processing float.
 - reduction of availability float.
 - d.** all of the above.

ANS: D PTS: 1 DIF: E

REF: 17.2 Collections

NAT: Reflective thinking

LOC: acquire knowledge of financial analysis and cash flows

33. In which situation below would a lock-box system likely produce greater benefits?

- a. when interest rates are very low
- b. when interest rates are very high
- c. when the firm's customers are concentrated locally
- d. when the firm collects with ACH transfers

ANS: B PTS: 1 DIF: E REF: 17.2 Collections

NAT: Reflective thinking

LOC: acquire knowledge of financial analysis and cash flows

34. Extending payment beyond the due date in order to reduce the cash conversion cycle

- a. is an accepted "stretching" of credit terms.
- b. is an unethical cash management practice.
- c. is an unethical cash management practice, but can be viewed as acceptable.
- d. is backwards; this actually increases the cash conversion cycle.

ANS: B PTS: 1 DIF: E

REF: 17.3 Accounts Payable and Disbursements

NAT: Reflective thinking

LOC: acquire knowledge of financial analysis and cash flows

35. The purpose of a "positive pay" service is to

- a. reduce availability and clearing float
- b. only clear checks when a firm's cash balance is positive.
- c. reduce a firm's exposure to check fraud.
- d. move funds to into a zero balance account.

ANS: C PTS: 1 DIF: E

REF: 17.3 Accounts Payable and Disbursements

NAT: Reflective thinking

LOC: acquire knowledge of financial analysis and cash flows

36. Place the following in the correct order of priority for selecting short-term investments:

- a. expected return, liquidity, preservation of capital
- b. expected return, preservation of capital, liquidity
- c. liquidity, expected return, preservation of capital
- d. preservation of capital, liquidity, expected return

ANS: D PTS: 1 DIF: M

REF: 17.4 Short-Term Investing and Borrowing

NAT: Reflective thinking

LOC: acquire knowledge of financial analysis and cash flows

37. For which of the following would missing (that is, not taking) the discount be the least costly?

- a. 2/10 net 40
- b. 1/15 net 60
- c. 3/10 net 70
- d. 1/10 net 50

ANS: B PTS: 1 DIF: M

REF: 17.3 Accounts Payable and Disbursements

NAT: Analytic skills

LOC: acquire knowledge of financial markets and interest rates

38. Suppose your firm can borrow at 10%. Which of the following discounts should your firm take?

- I. 2/10 net 30
- II. 1/15 net 60

- III. 3/10 net 70
- IV. 1/10 net 45

- a. II only
- b. I and III
- c. II and IV
- d. I, III, and IV

ANS: D PTS: 1 DIF: M

REF: 17.3 Accounts Payable and Disbursements

NAT: Analytic skills

LOC: acquire knowledge of financial markets and interest rates

39. Which of the following credit terms has the highest relevant cost?

- a. 3/10 net 60
- b. 2/10 net 30
- c. 2/15 net 45
- d. 4/15 net 90

ANS: B PTS: 1 DIF: E

REF: 17.3 Accounts Payable and Disbursements

NAT: Analytic skills

LOC: acquire knowledge of financial markets and interest rates

NARRBEGIN: Dilly Deli

Dilly Deli, Inc.

Dilly Deli, Inc., a nation-wide chain of deli-style restaurants, has built a \$34,000 balance in one of its regional bank accounts. It wishes to move \$30,000 to its main concentration account. A DTC cost \$1.50 and requires 3 days to clear; an EDT costs \$3.00 but requires only 1 day to clear; and a wire transfer costs \$15 and clears the same day. Dilly Deli, Inc. can earn 7% on short term investments.

NARREND

40. Refer to Dilly Deli. Which of the following is true?

- a. The wire transfer dominates both the DTC and the EDT.
- b. The wire transfer dominates the EDT but not the DTC.
- c. The DTC dominates both the EDT and the wire transfer.
- d. The EDT dominates the DTC and the wire transfer.

ANS: D PTS: 1 DIF: M

REF: 17.2 Collections

NAT: Analytic skills

LOC: acquire knowledge of financial analysis and cash flows

41. If the earnings rate for Dilly Deli, Inc. is 3%, which of the following is true?

- a. The wire transfer dominates both the DTC and EDT.
- b. The wire transfer dominates the EDT but not the DTC.
- c. The DTC dominates both the EDT and the wire transfer.
- d. The EDT dominates the DTC and the wire transfer.

ANS: D PTS: 1 DIF: M

REF: 17.2 Collections

NAT: Analytic skills

LOC: acquire knowledge of financial analysis and cash flows

42. Refer to Dilly Deli. Again assume short term investments can earn 7%. What is the minimum amount that needs to be transferred in order to make the wire transfer more cost effective than the EDT?

- a. \$62,751
- b. \$78,214
- c. \$70,393

d. \$66,482

ANS: A PTS: 1 DIF: M REF: 17.2 Collections
NAT: Analytic skills
LOC: acquire knowledge of financial analysis and cash flows

43. Currently, a 91-day Treasury bill sells at a 2.5% discount. What is the price of a \$1 million investment?
- a. \$993,967.12
 - b. \$871,250.00
 - c. \$993,750.00
 - d. \$993,680.56

ANS: D PTS: 1 DIF: E
REF: 17.4 Short-Term Investing and Borrowing NAT: Analytic skills
LOC: acquire knowledge of financial analysis and cash flows

44. Currently, a \$1 million, 91-day T-bill sells at a 2.5% discount. What is the money market yield?
- a. 2.500%
 - b. 2.516%
 - c. 2.551%
 - d. 2.532%

ANS: B PTS: 1 DIF: M
REF: 17.4 Short-Term Investing and Borrowing NAT: Analytic skills
LOC: acquire knowledge of financial markets and interest rates

45. Currently, a \$1 million, 91-day T-bill sells for a 2.5% discount. What is the bond equivalent yield?
- a. 2.500%
 - b. 2.516%
 - c. 2.551%
 - d. 2.532%

ANS: C PTS: 1 DIF: M
REF: 17.4 Short-Term Investing and Borrowing NAT: Analytic skills
LOC: acquire knowledge of financial markets and interest rates

46. Suppose the cash manager of Smart Products just bought a 91-day T-bill for \$992,416.67. What are the discount and bond equivalent yields on this security?
- a. 3.06%, 3.03%
 - b. 3.03%, 3.06%
 - c. 3.00%, 3.06%
 - d. 3.00%, 3.03%

ANS: C PTS: 1 DIF: M
REF: 17.4 Short-Term Investing and Borrowing NAT: Analytic skills
LOC: acquire knowledge of financial markets and interest rates

NARRBEGIN: Coyote Valley

Coyote Valley Products

Coyote Valley Products has daily cash collections of \$500,000. The cash management staff has determined (1) customers' payments are in the mail an average of 3 days; (2) processing after receipt averages 1 day; and (3) after deposit funds are cleared on average in 2 days. Assume a 365 day year.

NARREND

47. Refer to Coyote Valley Products. What is the firm's collection float, in days?

- a. 6
- b. 5
- c. 4
- d. 3

ANS: A PTS: 1 DIF: E REF: 17.2 Collections
NAT: Analytic skills
LOC: acquire knowledge of financial analysis and cash flows

48. If Coyote Valley Products faces a 9% opportunity cost of funds, what is the value of reducing float by 2 days?
- a. \$1,000,000
 - b. \$45,000
 - c. \$49,315
 - d. \$90,000

ANS: D PTS: 1 DIF: M REF: 17.2 Collections
NAT: Analytic skills
LOC: acquire knowledge of financial analysis and cash flows

49. If Coyote Valley Products faces an 8% opportunity cost of funds, what is the most it would pay to implement a lock-box system that reduces collection float by 2 days?
- a. \$40,000
 - b. \$60,000
 - c. \$80,000
 - d. \$100,000

ANS: C PTS: 1 DIF: M REF: 17.2 Collections
NAT: Analytic skills
LOC: acquire knowledge of financial analysis and cash flows

50. Coyote Valley's bank, Grand Lake National, proposes a lock-box collection and processing arrangement that will reduce collection float by 2 days. If the system will cost Coyote Valley \$115,000 per year, what is the minimum opportunity cost of funds that would make the system beneficial?
- a. 23.0%
 - b. 15.6%
 - c. 19.8%
 - d. 11.5%

ANS: D PTS: 1 DIF: M REF: 17.2 Collections
NAT: Analytic skills
LOC: acquire knowledge of financial analysis and cash flows

51. What would be the benefit of a lock-box system that reduced mail float by 1.5 days, eliminated processing float, and reduced clearing float by 1 day, if Coyote Valley Products faces a 9% opportunity cost of funds?
- a. \$112,500
 - b. \$157,500
 - c. \$180,000
 - d. \$67,500

ANS: B PTS: 1 DIF: M REF: 17.2 Collections
NAT: Analytic skills
LOC: acquire knowledge of financial analysis and cash flows

52. The firm needs to manage its accounts payable in a fashion that
- a. lengthens the payment period.
 - b. preserves the firm's credit reputation.
 - c.** both a and b.
 - d.** neither a nor b.

ANS: C

PTS: 1

DIF: E

REF: Introduction

NAT: Reflective thinking

LOC: acquire knowledge of financial analysis and cash flows

53. Liquidity management involves
- a. earning a positive return on idle excess cash balances.
 - b. obtaining low-cost financing for meeting unexpected needs and seasonal cash shortages.
 - c.** maintaining the greatest degree of liquidity possible for the firm's assets.
 - d.** both a and b

ANS: D

PTS: 1

DIF: E

REF: Introduction

NAT: Reflective thinking

LOC: acquire knowledge of financial analysis and cash flows

54. The primary role(s) of the cash manager is
- a. to manage the cash flow time line related to collection of funds.
 - b. to manage the cash flow time line related to concentration of funds.
 - c. to manage the cash flow time line related to disbursement of funds.
 - d.** all of the above

ANS: D

PTS: 1

DIF: E

REF: 17.1 Cash Management

NAT: Reflective thinking

LOC: acquire knowledge of financial analysis and cash flows

55. Funds that have been sent by the payer but are not yet usable funds to the payee are
- a. float.
 - b. overdrawn funds.
 - c. still available for the use of the payer.
 - d.** none of the above.

ANS: A

PTS: 1

DIF: E

REF: 17.1 Cash Management

NAT: Reflective thinking

LOC: acquire knowledge of financial analysis and cash flows

56. The primary role of the cash manager
- a. on the collections side is to minimize collection float and to maximize float on the payments side.
 - b. on the collections side is to maximize collection float and to minimize float on the payments side.
 - c. on the collections side is to maximize collection float and to maximize float on the payments side.
 - d.** none of the above.

ANS: A

PTS: 1

DIF: E

REF: 17.1 Cash Management

NAT: Reflective thinking

LOC: acquire knowledge of financial analysis and cash flows

57. The time between receipt of the payment and its deposit into the firm's account is
- a. mail float.

- b. processing float.
- c. availability float.
- d. clearing float.

ANS: B PTS: 1 DIF: M REF: 17.1 Cash Management
 NAT: Reflective thinking
 LOC: acquire knowledge of financial analysis and cash flows

58. \$100 million dollar days of float could be arrived at by
- a. \$100 million dollars worth of checks with an average of 5 days of float.
 - b. \$20 million dollars worth of checks with an average of 5 days of float.
 - c. \$10 million dollars worth of checks with an average of 20 days of float.
 - d. \$10 million dollars worth of checks with an average of 5 days of float.

ANS: B PTS: 1 DIF: E REF: 17.2 Collections
 NAT: Analytic skills
 LOC: acquire knowledge of financial analysis and cash flows

59. A business such as a restaurant, that receives local checks, cash, and debit card payments is more likely to utilize a(n)
- a. field-banking system for collections.
 - b. mail-based system for collections.
 - c. electronic system for collections.
 - d. lockbox system for collections.

ANS: A PTS: 1 DIF: M REF: 17.2 Collections
 NAT: Reflective thinking
 LOC: acquire knowledge of financial analysis and cash flows

60. The difference between a lockbox system and a mail-based system is
- a. that a mail-based system is more secure.
 - b. that a lockbox system is really a post office box that is emptied by the firm's bank.
 - c. that a lockbox system requires a larger in-house collection system for the firm.
 - d. none of the above.

ANS: B PTS: 1 DIF: M REF: 17.2 Collections
 NAT: Reflective thinking
 LOC: acquire knowledge of financial analysis and cash flows

61. The Barrell Company is approached by a bank that offers to implement a lockbox system of receipts for the firm. If the new system is implemented, it will reduce float by 6 days per year. If Barrell's cost of capital is 11.5% and its annual sales are expected to be \$10,00,000, then what is the maximum amount that Barrell is willing to pay for the lockbox system?
- a. \$1,890.41
 - b. \$18,904.11
 - c. \$164,438.56
 - d. \$1,150,000.00

ANS: B
 $10,000,000 \times (6/365) \times .115 = 18,904.11$

PTS: 1 DIF: M REF: 17.2 Collections
 NAT: Analytic skills
 LOC: acquire knowledge of financial analysis and cash flows

62. Your firm is expected to have \$15,000,000 in sales next year and its cost of capital is 13.5%. How many days of float will a lockbox system have to save you in order to pay for a system that will cost your firm \$27,740 per year?
- a. 2 days
 - b. 3 days
 - c. 4 days
 - d. 5 days

ANS: D

$$27,740 = 15,000,000 \cdot (\text{days}/365) \cdot .135$$

$$\text{days} = 5$$

PTS: 1 DIF: M REF: 17.2 Collections

NAT: Analytic skills

LOC: acquire knowledge of financial analysis and cash flows

63. An unsigned check drawn on one of the firm's bank accounts and deposited in another of the firm's bank accounts is
- a. an automated clearinghouse debit transfer.
 - b. a depository transfer check.
 - c. a wire transfer.
 - d. none of the above.

ANS: B PTS: 1 DIF: M REF: 17.2 Collections

NAT: Reflective thinking

LOC: acquire knowledge of financial analysis and cash flows

64. A preauthorized electronic withdrawal for the payer's account is known as
- a. a depository transfer check.
 - b. an automated clearinghouse debit transfer.
 - c. a wire transfer.
 - d. none of the above.

ANS: B PTS: 1 DIF: M REF: 17.2 Collections

NAT: Reflective thinking

LOC: acquire knowledge of financial analysis and cash flows

65. You need to decide whether your firm should transfer funds from a deposit account to a transfer account via EDT that will cost \$2 or via a wire transfer that will cost \$20. It is a Friday so the wire transfer will save you 3 days of float. If your cost of capital is 8%, then how large must the transfer be in order to be indifferent between the wire and the ADT? round to the nearest dollar.
- a. \$82,125
 - b. \$30,417
 - c. \$27,375
 - d. \$3,042

ANS: C

$$\text{Differential cost} = \$18$$

$$18 = \text{size} \cdot (3/365) \cdot .08$$

$$\text{size} = 27,375$$

PTS: 1 DIF: M REF: 17.2 Collections

NAT: Analytic skills

LOC: acquire knowledge of financial analysis and cash flows

66. A component of the average payment period is
- the time from the purchase of raw materials until the firm places the payment in the mail.
 - the time it takes after the firm places its payment in the mail until the supplier has withdrawn funds from the firm's account.
 - both a and b
 - either a or b

ANS: C

PTS: 1

DIF: M

REF: 17.3 Accounts Payable and Disbursements

NAT: Reflective thinking

LOC: acquire knowledge of financial analysis and cash flows

67. The primary purpose of the accounts payable function
- is to examine all incoming invoices and determine the proper amount to be paid.
 - is to generate float for the firm.
 - is to pay invoices as soon as possible.
 - none of the above.

ANS: A

PTS: 1

DIF: E

REF: 17.3 Accounts Payable and Disbursements

NAT: Reflective thinking

LOC: acquire knowledge of financial analysis and cash flows

68. National Groceries chooses to have its local stores make payments on their own payables. National utilizes a
- centralized payment system.
 - fragmented payment system.
 - decentralized payment system.
 - none of the above.

ANS: C

PTS: 1

DIF: E

REF: 17.3 Accounts Payable and Disbursements

NAT: Reflective thinking

LOC: acquire knowledge of financial analysis and cash flows

69. Near-cash assets in the form of short-term investments are often called
- marketable securities.
 - corporate bonds.
 - treasury notes.
 - treasury bonds.

ANS: A

PTS: 1

DIF: E

REF: 17.4 Short-Term Investing and Borrowing

NAT: Reflective thinking

LOC: acquire knowledge of financial analysis and cash flows

70. A supplier has offered you credit terms of 3/10 net 30. What is the implied rate of interest in the terms?
- 56.44%
 - 37.08%
 - 5.69%
 - 3.09%

ANS: A

$(.03/.97) \times (365/20) = .5644$

PTS: 1

DIF: M

REF: 17.4 Short-Term Investing and Borrowing

NAT: Analytic skills

LOC: acquire knowledge of financial markets and interest rates

71. You are offered credit terms of 1/20 net 45. What is the implied rate of interest by the discount?
- a. 1.01%
 - b. 12.12%
 - c. 14.75%
 - d. 25.25%

ANS: C

$$(.01/.99) \times (365/25) = .1475$$

PTS: 1

DIF: M

REF: 17.4 Short-Term Investing and Borrowing

NAT: Analytic skills

LOC: acquire knowledge of financial markets and interest rates

72. Your cost of capital is 16% and you are offered credit terms of 1/10 net 60. Do you take the discount or not and why?
- a. you take the discount because 7.37% is less than 16%
 - b. you do not take the discount because 7.37% is less than 16%
 - c. you take the discount because 23.37% is greater than 16%
 - d. you do not take the discount because 7.37% is less than 16%

ANS: B

$$(.01/.99) \times (365/50) = .0737 < .16 \implies \text{you do not take the discount}$$

PTS: 1

DIF: H

REF: 17.4 Short-Term Investing and Borrowing

NAT: Analytic skills

LOC: acquire knowledge of financial markets and interest rates

73. Your cost of capital is 8% and you are offered a discount of 1% for early payment, otherwise the entire amount is due in 60 days. How many days after purchase will cause you to be indifferent between taking the discount and not taking the discount?
- a. 46.08 days
 - b. 21.69 days
 - c. 13.91 days
 - d. 60 days

ANS: C

$$.08 = (.01/.99) \times (365/[60 - \text{discount days}])$$

$$\text{discount days} = 13.91 \text{ days}$$

PTS: 1

DIF: H

REF: 17.4 Short-Term Investing and Borrowing

NAT: Analytic skills

LOC: acquire knowledge of financial markets and interest rates

74. A bank service that provides early notification of checks that will be presented against a company's account on a given day is called
- a. a controlled disbursement.
 - b. a positive pay disbursement.
 - c. an integrated accounts payable.
 - d.** none of the above.

ANS: A

PTS: 1

DIF: E

REF: 17.3 Accounts Payable and Disbursements
LOC: acquire knowledge of financial analysis and cash flows

NAT: Reflective thinking

75. What is the money market yield for a one-year treasury bill that is priced at a 4% discount?
- a. 3.83%
 - b. 4%
 - c. 4.17%
 - d. 4.22%

ANS: C

$$\text{discount} = .04 \times 1,000 = 40$$

$$\text{money market yield} = 40 / 960 = 4.17\%$$

PTS: 1 DIF: M REF: 17.4 Short-Term Investing and Borrowing
NAT: Analytic skills
LOC: acquire knowledge of financial markets and interest rates

76. A 60-day treasury bill is priced at a 4% discount rate. What is the bond-equivalent yield of the security?
- a. 4.00%
 - b. 4.03%
 - c. 4.08%
 - d. 6.67%

ANS: C

$$\text{discount} = .04 \times (60/360) \times 1,000 = 6.67$$

$$\text{money market yield} = [6.67 / (1,000 - 6.67)] \times (360/60) = .040269$$

$$\text{bond equivalent yield} = .040269 \times (365/360) = .0408277$$

PTS: 1 DIF: H REF: 17.4 Short-Term Investing and Borrowing
NAT: Analytic skills
LOC: acquire knowledge of financial markets and interest rates

77. Which of the following statements is a detailed invoice listing all checks cleared, account charges, lockbox charges, electronic transactions, etc.?
- a. bank statement
 - b. bank account analysis statement
 - c. reconciliation statement
 - d. financial statement
 - e. none of the above

ANS: B PTS: 1 DIF: E REF: 17.1 Cash Management
NAT: Reflective thinking
LOC: acquire knowledge of financial analysis and cash flows

78. Which of the following statements concerning mail-based collection systems is true?
- a. Regardless of recent developments in payment processing equipment, it is still too expensive for smaller companies to use mail-based collection systems.
 - b. Generally it is cheaper for high-volume processors to use the lockbox system rather than mail-based collection systems.
 - c. Low-volume processors may find that using a lockbox system is more cost effective than a mail-based collection system.

- d.** All of the above statements are true.
- e.** Only (a) and (b) are true.

ANS: C PTS: 1 DIF: M REF: 17.2 Collections
NAT: Reflective thinking
LOC: acquire knowledge of financial analysis and cash flows

79. Which of the following is not a benefit of using EIPP in the business-to-business market?
- a. Reduced float to the receiving party
 - b. Lower cost of receivables processing for the receiver and payment initiation and reconciliation costs for the payer
 - c. Better forecasting for both receiver and payer
 - d. Lower cost of receivables processing for the payer and payment initiation and reconciliation costs for the receiver.
 - e.** All of the above are benefits

ANS: D PTS: 1 DIF: M REF: 17.2 Collections
NAT: Reflective thinking
LOC: acquire knowledge of financial analysis and cash flows

80. Which of the following is not an advantage of cash concentration?
- a. It creates a large pool of funds for use in making short-term cash investments.
 - b. Concentrating the firm's cash in one account improves the tracking and internal control of the firm's cash.
 - c. It results in having fewer investment opportunities to choose from.
 - d.** All of the above are advantages.

ANS: C PTS: 1 DIF: M REF: 17.2 Collections
NAT: Reflective thinking
LOC: acquire knowledge of financial analysis and cash flows

81. Which of the following can be thought of as an electronic DTC?
- a. Wire transfer
 - b. Automated Clearinghouse Debit Transfer
 - c. Concentrated banking
 - d. Field-banking system
 - e.** None of the above

ANS: B PTS: 1 DIF: E REF: 17.2 Collections
NAT: Reflective thinking
LOC: acquire knowledge of financial analysis and cash flows

82. Which of the following is true concerning transfer mechanisms?
- a. The firm must choose the mechanism that offers the highest earnings on the increased funds' availability.
 - b. The firm must choose the mechanism that offers the lowest costs.
 - c.** The firm must balance the marginal costs vs. the marginal benefits and select the one with the highest marginal profit.
 - d.** In practice, most companies use wire transfers for large transfers of funds from lockbox systems and EDTs for high-volume, low-dollar transfers from small deposit banks.
 - e.** Both (c) and (d) are true.

ANS: E PTS: 1 DIF: M REF: 17.2 Collections
NAT: Reflective thinking
LOC: acquire knowledge of financial analysis and cash flows

83. You have a credit card with NewBank. Calculate the new balance as of January 10 after considering the finance charge for the month which is a 1.5% monthly rate based on the average daily balance and the following purchases/payments. Your outstanding balance on December 10th is \$423 and your statement extends from December 10 through January 10.

December 13	Purchase of \$189
December 20	Purchase of \$983
December 23	Purchase of \$233
January 7	Payment of \$500

- a. \$1,346.52
- b. \$1,348.20
- c. \$1,328.00
- d. \$41,742
- e. none of the above

ANS: B

Dates	(1) Number of Days	(2) Balance	(1) * (2)
December 11-13	3	423	1,269
December 14-20	7	423 + 189 = 612	4,284
December 21-23	3	612 + 983 = 1,595	4,785
December 24-January 7	15	1,595 + 233 = 1,828	27,420
January 8-10	3	1,828 - 500 = 1,328	3,984
			Sum = 41,742

$41,742/31 = \$1,346.52 * .015 = \$20.20$ in interest charges

New balance = old balance of \$1,328 + \$20.20 in interest for total of \$1,348.20

PTS: 1 DIF: H REF: 17.3 Accounts Payable and Disbursements
 NAT: Analytic skills
 LOC: acquire knowledge of financial analysis and cash flows

84. A zero-balance account is designed to:
- a. provide early notification of checks that will be presented against a company's account on a given day.
 - b. help combat a common type of check fraud.
 - c. provide a company with outsourcing of its accounts payable or disbursement operations.
 - d. eliminate nonearning cash balances in corporate checking accounts.

ANS: D PTS: 1 DIF: E
 REF: 17.3 Accounts Payable and Disbursements NAT: Reflective thinking
 LOC: acquire knowledge of financial analysis and cash flows

85. Controlled disbursement is designed to:
- a. provide early notification of checks that will be presented against a company's account on a given day.
 - b. help combat a common type of check fraud.
 - c. provide a company with outsourcing of its accounts payable or disbursement operations.
 - d. eliminate nonearning cash balances in corporate checking accounts.

ANS: A PTS: 1 DIF: E
REF: 17.3 Accounts Payable and Disbursements NAT: Reflective thinking
LOC: acquire knowledge of financial analysis and cash flows

86. Integrated accounts payable:
- provide early notification of checks that will be presented against a company's account on a given day.
 - help combat a common type of check fraud.
 - provide a company with outsourcing of its accounts payable or disbursement operations.
 - eliminate nonearning cash balances in corporate checking accounts.

ANS: C PTS: 1 DIF: E
REF: 17.3 Accounts Payable and Disbursements NAT: Reflective thinking
LOC: acquire knowledge of financial analysis and cash flows

87. Purchasing (or procurement) cards are designed to:
- reduce the cost of low-dollar indirect purchases.
 - help combat a common type of check fraud.
 - provide a company with outsourcing of its accounts payable or disbursement operations.
 - eliminate nonearning cash balances in corporate checking accounts.

ANS: A PTS: 1 DIF: E
REF: 17.3 Accounts Payable and Disbursements NAT: Reflective thinking
LOC: acquire knowledge of financial analysis and cash flows

88. Which of the following are listed as a common fraud prevention measures?
- Using positive pay services
 - Separating check-issuance duties (approval, signing and reconciliation)
 - Increasing the use of electronic payment methods
 - Using safety measures on checks such as microprinting and watermarks
 - e.** all of the above are listed as common fraud prevention measures

ANS: E PTS: 1 DIF: M
REF: 17.3 Accounts Payable and Disbursements NAT: Reflective thinking
LOC: acquire knowledge of financial analysis and cash flows

89. Emma is evaluating a Treasury Bill. It is a \$1 million face value with a discount of 2.55% and maturing in 91 days. What is the dollar discount?
- \$6,445.83
 - \$2,550.00
 - \$1,611.46
 - \$8,011.06

ANS: A

Days to Maturity	91
Face Value	\$1,000,000.00
discount	2.55%
Year Days	360

Dollar Discount	\$6,445.83
Purchase Price	\$993,554.17

Money Market Yield	2.567%
Bond Equivilant Yield	2.602%

PTS: 1 DIF: E REF: 17.4 Short-Term Investing and Borrowing
NAT: Analytic skills
LOC: acquire knowledge of financial analysis and cash flows

90. Emma is evaluating a Treasury Bill. It is a \$1 million face value with a discount of 2.55% and maturing in 91 days. What is the purchase price?
- a. \$1,000,000.00
 - b. \$987,108.33
 - c. \$1,025,500.00
 - d. \$993,554.17

ANS: D

Days to Maturity	91
Face Value	\$1,000,000.00
discount	2.55%
Year Days	360
Dollar Discount	\$6,445.83
Purchase Price	\$993,554.17
Money Market Yield	2.567%
Bond Equivilant Yield	2.602%

PTS: 1 DIF: E REF: 17.4 Short-Term Investing and Borrowing
NAT: Analytic skills
LOC: acquire knowledge of financial analysis and cash flows

91. Emma is evaluating a Treasury Bill. It is a \$1 million face value with a discount of 2.55% and maturing in 91 days. What is the money market yield?
- a. 2.550%
 - b. 2.585%
 - c. 2.567%
 - d. 2.602%

ANS: C

Days to Maturity	91
Face Value	\$1,000,000.00
discount	2.55%
Year Days	360
Dollar Discount	\$6,445.83
Purchase Price	\$993,554.17
Money Market Yield	2.567%
Bond Equivilant Yield	2.602%

PTS: 1 DIF: E REF: 17.4 Short-Term Investing and Borrowing
NAT: Analytic skills
LOC: acquire knowledge of financial analysis and cash flows

92. Emma is evaluating a Treasury Bill. It is a \$1 million face value with a discount of 2.55% and maturing in 91 days. What is the bond equivalent yield?
- 2.550%
 - 2.585%
 - 2.567%
 - 2.602%

ANS: D

Days to Maturity	91
Face Value	\$1,000,000.00
discount	2.55%
Year Days	360

Dollar Discount	\$6,445.83
Purchase Price	\$993,554.17

Money Market Yield	2.567%
Bond Equivilant Yield	2.602%

PTS: 1 DIF: E REF: 17.4 Short-Term Investing and Borrowing

NAT: Analytic skills

LOC: acquire knowledge of financial analysis and cash flows

93. Roxy is evaluating a Treasury Bill. It is a \$1 million face value with a discount of 2.75% and maturing in 182 days. What is the dollar discount?
- \$13,902.78
 - \$2,750.00
 - \$3,475.69
 - \$8,639.38

ANS: A

Days to Maturity	182
Face Value	\$1,000,000.00
discount	2.75%
Year Days	360

Dollar Discount	\$13,902.78
Purchase Price	\$986,097.22

Money Market Yield	2.789%
Bond Equivilant Yield	2.828%

PTS: 1 DIF: E REF: 17.4 Short-Term Investing and Borrowing

NAT: Analytic skills

LOC: acquire knowledge of financial analysis and cash flows

94. Roxy is evaluating a Treasury Bill. It is a \$1 million face value with a discount of 2.75% and maturing in 182 days. What is the purchase price?
- \$1,000,000.00
 - \$986,097.22
 - \$972,194.44

d. \$1,027,500.00

ANS: B

Days to Maturity	182
Face Value	\$1,000,000.00
discount	2.75%
Year Days	360

Dollar Discount	\$13,902.78
Purchase Price	\$986,097.22

Money Market Yield	2.789%
Bond Equivilant Yield	2.828%

PTS: 1 DIF: E REF: 17.4 Short-Term Investing and Borrowing

NAT: Analytic skills

LOC: acquire knowledge of financial analysis and cash flows

95. Roxy is evaluating a Treasury Bill. It is a \$1 million face value with a discount of 2.75% and maturing in 182 days. What is the money market yield?

- a. 2.789%
- b. 2.828%
- c. 2.750%
- d. 2.788%

ANS: A

Days to Maturity	182
Face Value	\$1,000,000.00
discount	2.75%
Year Days	360

Dollar Discount	\$13,902.78
Purchase Price	\$986,097.22

Money Market Yield	2.789%
Bond Equivilant Yield	2.828%

PTS: 1 DIF: E REF: 17.4 Short-Term Investing and Borrowing

NAT: Analytic skills

LOC: acquire knowledge of financial analysis and cash flows

96. Roxy is evaluating a Treasury Bill. It is a \$1 million face value with a discount of 2.75% and maturing in 182 days. What is the bond equivalent yield?

- a. 2.789%
- b. 2.828%
- c. 2.750%
- d. 2.788%

ANS: B

Days to Maturity	182
Face Value	\$1,000,000.00
discount	2.75%
Year Days	360

Dollar Discount	\$13,902.78
Purchase Price	\$986,097.22

Money Market Yield	2.789%
Bond Equivilant Yield	2.828%

PTS: 1 DIF: E REF: 17.4 Short-Term Investing and Borrowing
 NAT: Analytic skills
 LOC: acquire knowledge of financial analysis and cash flows

97. Roxy is evaluating a Treasury Bill. It is a \$1 million face value with a discount of 2.75% and maturing in 182 days. What is the bond equivalent yield?

- a. 2.789%
- b. 2.828%
- c. 2.750%
- d. 2.788%

ANS: B

Days to Maturity	182
Face Value	\$1,000,000.00
discount	2.75%
Year Days	360

Dollar Discount	\$13,902.78
Purchase Price	\$986,097.22

Money Market Yield	2.789%
Bond Equivilant Yield	2.828%

PTS: 1 DIF: E REF: 17.4 Short-Term Investing and Borrowing
 NAT: Analytic skills
 LOC: acquire knowledge of financial analysis and cash flows

98. Louis is evaluating a Treasury Bill. It is a \$1 million face value with a discount of 3.25% and maturing in 182 days. What is the dollar discount?

- a. \$10,210.18
- b. \$4,107.64
- c. \$3,250.00
- d. \$16,430.56

ANS: D

Days to Maturity	182
Face Value	\$1,000,000.00
discount	3.25%
Year Days	360

Dollar Discount	\$16,430.56
Purchase Price	\$983,569.44

Money Market Yield	3.304%
Bond Equivilant Yield	3.350%

PTS: 1 DIF: E REF: 17.4 Short-Term Investing and Borrowing
 NAT: Analytic skills
 LOC: acquire knowledge of financial analysis and cash flows

99. Louis is evaluating a Treasury Bill. It is a \$1 million face value with a discount of 3.25% and maturing in 182 days. What is the purchase price?
- \$1,000,000.00
 - \$967,138.89
 - \$983,569.44
 - \$1,032,500.00

ANS: C

Days to Maturity	182
Face Value	\$1,000,000.00
discount	3.25%
Year Days	360

Dollar Discount	\$16,430.56
Purchase Price	\$983,569.44

Money Market Yield	3.304%
Bond Equivilant Yield	3.350%

PTS: 1 DIF: E REF: 17.4 Short-Term Investing and Borrowing
 NAT: Analytic skills
 LOC: acquire knowledge of financial analysis and cash flows

100. Louis is evaluating a Treasury Bill. It is a \$1 million face value with a discount of 3.25% and maturing in 182 days. What is the money market yield?
- 3.250%
 - 3.250%
 - 3.304%
 - 3.350%

ANS: C

Days to Maturity	182
Face Value	\$1,000,000.00
discount	3.25%
Year Days	360

Dollar Discount	\$16,430.56
Purchase Price	\$983,569.44

Money Market Yield	3.304%
Bond Equivalent Yield	3.350%

PTS: 1 DIF: E REF: 17.4 Short-Term Investing and Borrowing
 NAT: Analytic skills
 LOC: acquire knowledge of financial analysis and cash flows

101. Louis is evaluating a Treasury Bill. It is a \$1 million face value with a discount of 3.25% and maturing in 182 days. What is the bond equivalent yield?
- 3.250%
 - 3.250%
 - 3.304%
 - 3.350%

ANS: D

Days to Maturity	182
Face Value	\$1,000,000.00
discount	3.25%
Year Days	360

Dollar Discount	\$16,430.56
Purchase Price	\$983,569.44

Money Market Yield	3.304%
Bond Equivalent Yield	3.350%

PTS: 1 DIF: E REF: 17.4 Short-Term Investing and Borrowing
 NAT: Analytic skills
 LOC: acquire knowledge of financial analysis and cash flows

102. Emma is evaluating a lock-box system that will reduce float by 4 days. The firm has annual sales of \$52 million and an opportunity cost of 15%. If the lock-box system is adopted, what is the **amount** of funds released?
- \$ 85,479.45
 - \$ 142,465.75
 - \$ 21,369.86
 - \$ 569,863.01

ANS: D

Daily collections	\$	142,465.75
Reduction in Float		4
Funds released	\$	569,863.01
Opp. Cost		0.15
Value =		\$ 85,479.45

PTS: 1 DIF: M REF: 17.2 Collections
 NAT: Analysis LOC: acquire knowledge of financial analysis and cash flows

103. Emma is evaluating a lock-box system that will reduce float by 4 days. The firm has annual sales of \$52 million and an opportunity cost of 15%. If the lock-box system is adopted, what is the **value** of funds released?

- a. \$ 85,479.45
- b. \$ 142,465.75
- c. \$ 21,369.86
- d. \$ 569,863.01

ANS: A

Daily collections	\$	142,465.75
Reduction in Float		4
Funds released	\$	569,863.01
Opp. Cost		0.15
Value =	\$	85,479.45

PTS: 1 DIF: M REF: 17.2 Collections
 NAT: Analysis LOC: acquire knowledge of financial analysis and cash flows

104. Roxy is evaluating a lock-box system that will reduce float by 6 days. The firm has annual sales of \$180 million and an opportunity cost of 12%. If the lock-box system is adopted, what is the **amount** of funds released?

- a. \$ 355,068.49
- b. \$ 493,150.68
- c. \$ 59,178.08
- d. \$ 2,958,904.11

ANS: A

Daily collections	\$	493,150.68
Reduction in Float		6
Funds released	\$	2,958,904.11
Opp. Cost		0.12
Value =	\$	355,068.49

PTS: 1 DIF: M REF: 17.2 Collections
 NAT: Analysis LOC: acquire knowledge of financial analysis and cash flows

105. Roxy is evaluating a lock-box system that will reduce float by 6 days. The firm has annual sales of \$180 million and an opportunity cost of 12%. If the lock-box system is adopted, what is the **value** of funds released?

- a. \$ 493,150.68
- b. \$ 355,068.49
- c. \$ 59,178.08
- d. \$ 2,958,904.11

ANS: B

Daily collections	\$	493,150.68
Reduction in Float		6
Funds released	\$	2,958,904.11
Opp. Cost		0.12
Value =	\$	355,068.49

PTS: 1 DIF: M REF: 17.2 Collections
 NAT: Analysis LOC: acquire knowledge of financial analysis and cash flows