

Problem 1:

Garrett Industries turns over its inventory 6 times each year; it has an average collection period of 45 days and an average payment period of 30 days. The firm's annual operating-cycle investment is \$3 million. Assume a 360-day year.

- a) Calculate firm's operating cycle, cash conversion cycle, its daily cash operating expenditure, and the amount of resources needed to support its cash conversion cycle.
- b) Find the firm's cash conversion cycle and resource investment requirement if it makes the following changes simultaneously.
 - (1) Shortens the average age of inventory by 5 days.
 - (2) Speeds the collection of accounts receivable by an average 10 days.
 - (3) Extends the average payment period by 10 days.
- c) Discuss possible management that might be able to reduce the cash conversion cycle.

Problem 2:

The Zocco Corporation has an inventory conversion period of 60 days, an average collection period of 38 days, and a payables deferral period of 30 days. Assume that cost of goods sold is 75% of sales.

- a) What is the length of the firm's cash conversion cycle?
- b) If Zocco's annual sales are \$3,421,875 and all sales are on credit, what is the firm's investment in accounts receivable?
- c) How many times per year does Zocco turn over its inventory?

Problem 3:

Suppose that Dynamic Mattress needs to raise \$20 million for 6 months. Bank A quotes a simple interest rate of 7 percent but requires the firm to maintain an interest-free compensating balance of 20 percent. Bank B quotes a simple interest rate of 8 percent but does not require any compensating balances. Bank C quotes a discount interest rate of 7.5 percent and also does not require compensating balances. What is the effective (or compound) annual interest rate on each of these loans?