

Homework — Working Capital and Short-Term Finance

Required questions - turn in to the TAs

Homework for Week 4. Each set belongs to the video of the same number. **One question in each set is required;** answer it and turn it in to the TAs. The rest are optional practice, and worked answers to those are published alongside the set. A full set takes about twenty minutes. Work them before the case session.

Homework · 4.1

1. A firm has revenue of ₦250M, cost of goods sold of ₦175M, receivables of ₦41M, inventory of ₦29M, and payables of ₦19M. Compute its net working capital and its working-capital intensity.

Homework · 4.2

1. A firm with revenue of ₦180M collects in 45 days and has a 30% gross margin. It is considering moving to 75 days across the whole book, which it expects would win ₦25M of new sales. Its funding rate is 26%. Compute the net benefit.

Homework · 4.3

1. Compute the effective annual rate of forgoing each: (a) 1/10 net 30; (b) 2/15 net 45; (c) 3/10 net 60. A firm can borrow at 22%. Which of the three sets of terms above should it borrow to take, and which should it forgo?

Homework · 4.4

1. A bank offers ₦80M at 24% per annum with a 1.5% arrangement fee, for a 60-day draw. Compute the total cost and the effective annual rate.

Homework · 4.5

1. A firm holds ₦85M of inventory. It borrows at 25%, and storage, insurance and shrinkage together cost 7% of stock value per year. Compute the annual carrying cost.