

Working capital management and capital budgeting assignment



**ASSIGN
BUSTER**

Working Capital Management and Capital Budgeting Alexis A. Stoute

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02, 2010 Working Capital Management and Capital Budgeting This week's assignment focused on Working Capital Management and Capital Budgeting. As per the class syllabus, students were to formulate responses for questions 4-6A (Chapter 4) and 5-1A, 5-4A, 5-5A, and 5-6A (Chapter 5) from the book Financial Management: Principles and Applications. In this paper I will briefly discuss the answers that I formulated for each question.

For question 4-6A (Chapter 4) we were instructed to prepare a cash budget for the Sharpe Corporation, which was to cover the first seven months of 2004. There was additional information given to help prepare the cash budget such as rent and other expenditures, how suppliers are paid, and information on short-term financing. This as well as additional information was necessary for the completion of the cash budget. Students were also asked to answer the second part of question 4-6A: b.

Sharpe has \$200, 000 in notes payable due in July that must be repaid or renegotiated for an extension. Will the firm have ample cash to repay the notes (Keown, Martin, Petty, & Scott, 2005)? According to the cash budget analysis, the Sharpe Corporation will have funds of \$222, 009 in July to repay the notes. After the notes are paid the Sharpe Corporation will have \$22, 009 left, which is well over the balance of \$15, 000 that must be maintained on a monthly basis. In Chapter 5 students were instructed to formulate answers for questions 5-1A, 5-4A, 5-5A, and 5-6A.

While my work was done separately, and submitted via my individual forum on OLS, I will briefly discuss my answers in the next few paragraphs.

Question 5-1A (a, b, c, d) required students to formulate the compound interest for different amounts. Using the ratio indicated in my work I came up with the following answers: a. \$12,968.11 (\$5,000 invested for 10 years at 10% compounded annually), b. \$13,700.59 (\$8,000 invested for 7 years at 8% compounded annually), c. \$3,019.38 (\$775 invested for 12 years at 12% compounded annually), and d. \$26,801.1 (\$21,000 invested for 5 years at 5% compounded annually). I was able to compare a couple of my calculations with a few answers in the back of the book and while my answers did not match exactly they were awfully close to the correct answers. For question 5-4A (a, b, c, d) students were instructed to formulate answers for present value. Using the ratio indicated in my work, I came up with the following answers: a. \$308.43 (\$800 to be received 10 years from now discounted back to the present at 10%), b. \$235.05 (\$300 to be received 5 years from now discounted back to the present at 5%), c. 789.41 (\$1,000 to be received 8 years from now discounted back to the present at 3%), d. \$232.57 (\$1,000 to be received 8 years from now discounted back to the present at 20%). While I was able to calculate the ratios I was a bit confused about the concept in general. For question 5-5A (a, b, c, d) students were instructed to formulate answers for compound annuity. Using the ratio indicated in my work, I came up with the following answers: a. \$6,576.50 (\$500 a year for 10 years compounded annually at 5%), b. \$661.50 (\$100 a year for 5 years compounded annually at 10%), c. \$321.0 (\$35 a year for 7 years compounded annually at 7%), d. \$77.52 (\$25 a year for 3 years compounded annually at 2%). While the calculations were a little more

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tedious then some of the other ratios, I was able to rationalize by thinking about how my 401K operated and it made me understand the concept of compound annuity a little better. For questions 5-6A (a, b, c, d) students were instructed to formulate answers for the present value of an annuity. Using the ration indicated in my work, I came up with the following answers: a. \$17, 560 (\$2, 500 a year for 10 years discounted back to the present at 7%), b. \$198. 3 (\$70 a year for 3 years discounted back to the present at 3%), c. \$1, 562. 96 (\$280 a year for 7 years discounted back to the present at 6%), d. \$3, 072. 50 (\$500 a year for 10 years discounted back to the present at 10%). I found this ratio to be the most difficult by far to calculate but I was able to grasp the concept somewhat. I found this week's assignment to be extremely challenging. While my strong points in completing my assignments generally are centered on my writing capabilities I often find myself struggling when it comes to ratios, calculations, and any other functions that deal with numbers.

I believe that these struggles often prevent me from understanding the full concept of such ratios, etc. While I can generally grasp the general context I often find myself having to reaffirm things time and time again. Even though I do struggle at times, all I can do is try my best and learn from my mistakes.

Reference Keown, A. J. , Martin, J. D. , Petty, J. W. , & Scott, D. F. , Jr (2005).

Financial management: Principles and applications (10th ed.). Retrieved from <https://ecampus.phoenix.edu/content/eBookLibrary2/content/TOC.aspx?assetdataid=b34cdf6f-ec85-4584-ae52-62ec7882ed0d&assetmetaid=aa3fe6c6-edb6-47f6-9d59-cb0f7feb808a>

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