ITF #15

Pretty Lady Cosmetic Products has an average production process time of 40 days. Finished goods are kept on hand for an average of 15 days before they are sold. Accounts receivable are outstanding an average of 35 days, and the firm receives 40-days credit on its purchases from suppliers.

*a. Estimate the average length of the firm’s short-term operating cycle. How often would the cycle turn over in a year?*

*b. Assume net sales of $1,200,000 and cost of goods sold of $900,000. Determine the average investment in accounts receivable, inventories, and accounts payable. What would be the net financing need considering only these three accounts?*

ITF #16

Assume that you have been offered cash discounts on merchandise that can be purchased from either of two suppliers. Supplier A offers trade credit terms of 3/20, net/70, while Supplier B offers 4/15, net/80.

1. What is the approximate effective cost of missing the cash discounts from A supplier?
2. What is the approximate effective cost of missing the cash discounts from B supplier?
3. If you could not take advantage of either cash discount offer, which supplier would you select?