**Telegram Channel: AcFn Second Year**

**Link: t.me/acfn2nd**

**Submission Date: May 30, 2012 Ec.**

**Financial Management II Individual assignment**

1. In order to increase sales from current 2,400,000 br annual sales accompany wants to liberalize its credit policy. The current credit period is 30 days.
* If credit period is extended by 15 days, sales will increase by 10,000 br.
* If credit period is extended by 30 days, sales will increase by 15,000 br.

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| --- | --- |
|  | Bad debts |
| Price 100 birr per unit | Current policy 1% of sales |
| Variable cost 60 birr per unit  | 15% days extension 3% of sales |
| Required rate of return 20% | 30 days extension 6 % of sales |

 Which credit policy should be persuaded?

1. A bricks importer is experiencing increase in demand and expected to sell 1,250,000 of bricks in a year. Annual carrying cost is 0.09 dollar per brick and ordering cost per order is 90 dollar.

Required: compute EOQ, Carrying cost, Ordering cost and total cost of holding inventory?

1. His Investments Incorporation has an annual cash demand of $ 408,000. Transaction cost is given as $ 120 per purchase or sale of securities. Interest on borrowings is given as 9 percent. Determine constant cash injections, using Baumol model.
2. Green House limited has a monthly cash demand of $ 560,000. Transaction cost is given as $ 180 per purchase or sale of securities. Interest on borrowings is given as 12 percent per annum. Determine constant cash injections, using Baumol model.
3. Assume that a company has a monthly standard deviation of net cash flow of 200. Fixed cost of trading short term investment per transaction is 10 dollar and the monthly interest rate is 1%. If the company is decided to have a minimum cash balance of 100 dollar. Compute the optimum cash balance, upper limit and average cash balance using Miller-Orr model.