



2018 Bank Study Project Class of 2019

TREASURY MANAGEMENT Mark Krawczyk

NOTES:

1. Please use 8 1/2" x 11" paper (or paper folded to that size).
2. Attach the **Junior Cover Sheet – Class of 2019** from <http://www.gsblsu.org/students-4/> as the first page of your project.
3. Please staple your project or use a binder clip. **DO NOT** use paper clips. or any kind of folder or binder.

Complete and mail by November 15, 2018

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Treasury Management 2018 Bank Study Project Guidelines

1. Answer all questions (and all parts of each question) to the best of your ability. Put as many answers on a page as you can reasonably fit. **Remember, you are a banking professional and the expectation is to see a bank study project submission that reflects this fact as well as your own sense of professionalism.**
2. Be sure to show your work/calculations as you derive the answers to the questions so that your understanding of the concept(s) involved can be evaluated. **IF YOU DO NOT SHOW YOUR CALCULATIONS AND/OR RATIONALE YOU RISK A REDUCTION IN THE GRADE FOR YOUR BANK STUDY PROJECT – EVEN IF YOU HAVE THE CORRECT ANSWERS.**
3. Refer to the “good to know” comments” presented during the course of the week’s classes to help you in determining the appropriate responses to the questions.
4. Each question is worth five points for a total of **45 possible points.**

A score of **5** means not only was the correct answer provided, but the answer showed solid comprehension of the concepts in the question; the answer(s) was/were presented in a clear, concise fashion; reviewing the calculations (if necessary) showed a clear understanding of the issue(s) of the question(s); it was in an easily readable format – “easy on the eyes” of the grader (**ME.**)

A score of **1** means the student did not understand/comprehend the concept of the question; did not provide a correct answer; there was no clear explanation of how the answer was derived; there was no clarity/logic in how the answer was presented.

5. The presentation of the bank study project in general will be worth **5 points.** The assessment of the quality of the bank study project will be based upon the following:
 - Is it typed?
 - Did you utilize MS Office (or similar software)?
 - Did you spellcheck and check grammar and punctuation?
 - Is it professional in appearance?
 - Did you prepare your bank study project in such a way as you would have no hesitation in providing it to your president or to your Board of Directors?
6. The breakdown of your grade will be as follows:

▪ Exemplary	50 – 45	A
▪ Good Quality	44 – 38	B
▪ Satisfactory (barely)	37 – 31	C
▪ Not There Yet	Below 31	F

1. You are the Treasury Manager for Bugtussle Mercantile and have the responsibility for the short-term investment portfolio for the company. You are faced with what to do with a sudden influx of \$10,000,000 into the company (due to some luck your company's founder, Max E. Million, had at the track.) The funds are not needed for 180 days, so you have a decision to make on which investment to choose from the following alternatives.
 - a. A 180 day T-bill at a purchase price of \$ 9,759,000.
 - b. A 180 day CD currently quoted at a rate of 4.9%.
 - c. A municipal bond maturing in 180 days at a stated rate of 3.5%.
(NOTE: Bugtussle Mercantile's tax rate is 36% and the municipal bond has an acceptable credit rating per Bugtussle Mercantile's short-term investment policies and guidelines.)

Which investment should you choose and why? (Be sure to show your calculations as to how you arrived at your decision of which alternative you chose.)

2. Your company, Red Stick Enterprises, has received a \$400,000 invoice with credit terms of 2/15, net 60. The Treasurer of Red Stick Enterprises is thinking about skipping the discount and paying on day 60.
 - a. What is the annualized cost of skipping the discount and paying on day 60?
 - b. If you have a short term borrowing facility at 5.0%, should you take the discount and pay early? Why or why not?
3. Turnip Green Enterprises ("TGE") has issued \$10,000,000 of commercial paper with a 90 day maturity at 1.9%. The annual dealer fee was 35 basis points and the fee for the backup credit line was 60 basis points.
 - a. What is the effective annual interest rate for this commercial paper issue?
 - b. For this same issue, what happens to the effective annual interest rate if you negotiate the dealer fee down to 20 basis points and the fee for the backup credit line down to 40 basis points? What is the annual effective interest rate after you account for the success of your negotiating skills?
4. The Louisiana Nooklear Authority has issued 30 year municipal bonds with a yield of 3.5%. Your firm, High Falootin Industries ("HFI") is evaluating these securities as a potential investment. HFI's marginal tax rate is 25%. Taxable bonds with a similar maturity and default risk are yielding 2.95%. Should HFI invest in the municipal bonds instead of investing in the taxable bonds? Why or why not?

5. Complete the following monthly receipts and disbursements forecast for June, July, August and September, 2017. Show the completed forecast then answer each of the following questions:
- What is the net cash flow for August?
 - What is the ending cash balance for September?
 - In what months would short-term financing be needed (if at all?) and what amounts do you forecast needing to borrow in those months?
 - In what months are there opportunities for short-term investing (if at all?) and what amounts do you forecast as amounts to invest?

	JUNE	JULY	AUGUST	SEPT
Cash Receipts	\$400,000	\$450,000	\$450,000	\$200,000
Cash Disbursements	\$205,000	\$375,000	\$560,000	\$100,000
Net Cash Flows				
Beg. Cash Balance	\$50,000			
Ending Cash Balance				
Min. Cash Required (target balance)	(\$175,000)	(\$50,000)	(\$50,000)	(\$100,000)
Financing Needed (deficit)				
Investable Funds (surplus)				

6. The Bayou Wholesale Shrimp Company (premier provider of shrimp to 48% of the entire United States had the following financial information available to their shareholders at the annual meeting:
- Net Income for the year just ended was \$745 million
 - Their capital structure is 35% debt and 65% equity
 - Their marginal tax rate is 25% (thanks to the recent tax bill!)
 - The cost of their debt is 6.5%
 - Their cost of equity is calculated to be 9%

What is Bayou Wholesale Shrimp Company's Weighted Average Cost of Capital (WACC)?

NOTE: The three following problems are based upon the information provided in the sample financial statements attached. Please be brief and concise in your conclusions with regards to the questions asked with each problem.

7. Calculate the **Times Interest Earned Ratio**, the **Long Term Debt to Capital Ratio** and the **Total Liability to Total Assets Ratio** using the information contained in the attached financial statements. What conclusions can you draw from your analysis of these ratios (over the six periods) with regards to the overall debt management practices of this company?

8. Calculate the **Current Ratio**, the **Quick Ratio** and the **Cash Flow to Total Debt Ratio** using the information contained in the attached financial statements. What conclusions can you draw from your analysis of these ratios (over the six periods) with regards to the overall liquidity management practices of this company?

9. Calculate the **Return on Total Assets Ratio**, the **Return on Sales Ratio** and the **Return on Equity Ratio** using the information contained in the attached financial statements. What conclusions can you draw from your analysis of these ratios (over the six periods) with regards to the overall liquidity management practices of this company?