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Level 4: All branches



EXERCISE 4

Medium and Long Term Financing

Problem 1

A vendor offers a discount of 3% if the payment is made within 15 days. If the discount is not taken, full payment is due in 90 days.

1. Calculate the Annual Percentage Rate APR
2. Suppose that the period of the trade credit is 60 days. Calculate the APR in this case. Conclude.
3. If the vendor offers a discount rate of 1% instead of 3%. What would be the APR in this case? Conclude.

Problem 2

A company needs a short term financing of SAR 500,000 and have to choose among the following different alternatives of short term financing:

1. Get a 1year short-term loan from the first bank at an interest rate of 10%.
2. Dispense cash discount payment when buying from a supplier that gives trade credit terms 3/10, net 45.
3. Get a 1-year short-term loan from the second bank at an interest rate of 12%, note that is required to keep 15% as a compensating balance.
4. Get a 1-year short-term loan from the third bank at a discounted interest rate of 9%, and the bank requires to retain 20% of the value of the loan as a compensating balance.
5. Issuance of commercial papers at an interest rate of 6%, note that the sale of this papers costing the company SAR 500 / 3 months.

Calculate the effective interest rate for each of the above funding alternatives.

Which short term financing alternative would the company choose?

Problem 3

Hala.Co has borrowed an intermediate-term loan of 300,000 at an interest annual rate of 7% for 4 years. The annuities will be paid at the end of each year starting from the first year.

1- Calculate the annual payment?

2- Prepare the loan repayment schedule

In both cases

The loan will be repaid with 4 equal installments including interest and pay down of the principle.

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Problem 4

Question: The company Arab Equipment leasing wants to buy an equipment for 160,000 riyals, and then to lease it to other companies. The estimated economic life of the equipment is 5 years, and can to be sold at the end of the period for 3,000 riyals (salvage Value). The company follows the policy of straight-line depreciation expense and require a return on investment after tax of 18% . The company pays income tax at a rate of 20% . The company is committed to providing maintenance services for all equipment leased. Maintenance cost is estimated 1500 SAR per year.

Calculate the lease payment from the viewpoint of the Lessor.

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