

5. Affleck Inc.'s business is booming, and it needs to raise more capital. The company purchases supplies on terms of 1/10 net 20, and it currently takes the discount. One way of getting the needed funds would be to forgo the discount, and the firm's owner believes she could delay payment to 40 days without adverse effects. What would be the effective annual percentage cost of funds raised by this action? (Assume a 365-day year.)

$$Re = \frac{D}{a - b} * 365$$

Re –effective annual percentage;

D – discount, %;

a – discount period (days);

b - duration of deferred payment (days).

$$Re = \frac{1\%}{(40 - 10)} * 365 = 12,36\%$$

That's why the right answer is d. 12.36%.