

YOU HAVE 75 MINUTES TO COMPLETE BOTH PARTS OF THIS EXAM

Instructions:

- 1) The part of the exam is closed book and closed notes. No scrap paper is allowed, use the back of the exam if necessary.
- 2) Partial points are based on readily observable evidence that you know at least part of the solution concept. The more evidence presented (and the clearer the evidence), the better the chance for partial points. In other words, **SHOW ALL WORK!**
- 3) If you have additional time remaining, give your work one last check.
- 4) True/False questions are worth 2 points. Multiple-choice questions are worth 3 points. Short answer/Fill in the Blanks questions usually take less than three sentences and are worth 4 points. The Essay question is worth 15 points.

1. The primary goal of a publicly owned firm interested in serving its stockholders should be to
  - a. Maximize expected total corporate profit.
  - b. Maximize expected EPS.
  - c. Minimize the chances of losses.
  - d. Maximize the stock price per share.
  - e. Maximize expected net income.

2. What is a zero-sum game? You are competing in a zero-sum game, in which you are better than your competitor is. Is this game a positive NPV, negative NPV, or 0-NPV games for you? Explain why you choose this NPV.

3) Before the semester, you were considering taking FINC 4531 but realized the time of the course would conflict with another class that you needed. Which term best describes the situation associated with being able to take only one of the two courses?

- A) sunk cost                                      B) adverse selection                                      C) hubris  
D) opportunity cost                                      E) limited liability

4. What is the second best answer to this question? Explain your choice.

5) Which of the following statements is most correct?

- a. The tax rate the IRS applies to the pre-tax profits of partnerships often exceeds 10%.
- b. The tax rate the IRS applies to the pre-tax profits of sole proprietorships often exceeds 10%.
- c. The tax rate the IRS applies to the pre-tax profits of corporations often exceeds 10%.
- d. The largest companies in the world are most often organized as sole proprietorships.
- e. Some sole proprietorships are hundreds of years old.

6) Which of the following statements best describe the difference between finance and accounting?

- A) Accounting focuses on making decisions, while finance tries to determine value.
- B) Accounting generally has an historical outlook, while finance considers the future.
- C) Accounting asks questions like "Where do we go from here?", while finance asks questions like, "What do we do now?"
- D) Finance wants to know what happened yesterday, while accounting wants to know what happened today.
- E) There is little difference between finance and accounting.

7) What is the Balance Sheet Identity?

8. What primarily distinguishes current liabilities from other classes of liabilities on the balance sheet?

9) Name four basic stockholder rights.

- 1.
- 2.
- 3.
- 4.

10) The structure of a firm's balance sheet is most consistent with which model of the firm?

- a) Investment-Vehicle Model.
- b) Accounting Model.
- c) Set-of-Contracts Model.
- d. Sole-Proprietorship model.
- e. Contingent-Claims model.

11) Since large, publicly owned firms are controlled by their management teams, and typically, ownership is widely dispersed, managers have great freedom in managing the firm. Managers may operate in stockholders' best interests, but they may also operate in their own personal best interests. As long as managers stay within the law, there simply are not any effective controls over managerial decisions in such situations.

- a. True
- b. False

11) Which of the following statements describe money market securities?

- A) Money market securities are short-term claims with an original maturity that is generally one year or less.
- B) Money market securities are long-term claims with an original maturity that is generally more than one year.
- C) Money market securities are short-term claims with an original maturity that is generally six months or less.
- D) Money market securities are short-term claims with an original maturity that is generally two years or less.
- E) All of the above are consistent with money market securities.

12) Which of the following statements is false?

- A) The maturity date for Bonds, Preferred Stock, and Common Stock are all longer than one year.
- B) Preferred stock promises a dividend payment but usually does not give voting rights.
- C) Stockholders and bondholders, for a given company, are usually different groups of people.
- D) Bonds are long-term debt securities with a legal obligation to pay fixed, periodic interest payments and the principal on the date of maturity.
- E) All of the above are false.

13) Non-cash assets are expected to produce cash over time but the amount of cash they eventually produce could be higher or lower than the values at which the assets are carried on the books.

- a. True
- b. False

14. An agency relationship exists when one or more persons hire another person to perform some service and then delegates decision-making authority from that person.

- a. True.
- b. False.

15. The costs associated with agency costs are most often paid by the principal.

- a. True.
- b. False.

16) List the four required financial statements?

17. ESSAY QUESTION (15 POINTS)

In our textbook's Chapter 2, some Principles of Finance are listed. The textbook then uses these principles, in the remaining chapters of the book, to show that most finance topics can be explained using these principles. In the design of this course, I have attempted to reward the correct application of the principles and to make the course more difficult for those that ignore the principles.

Using at least 5 different Principles of Finance and 5 different examples from this semester's 4531 class, you are to give examples of situations/activities that are consistent (at least 3 examples) and inconsistent (at least 1 example) with the principles. For each example, describe the example, list the principle, then explain apply the principle to the situation. The examples can be from written material, my actions, or actions of other students. The inconsistent must be something for which I (Dr. Hodges) am responsible. Be verbose. At a minimum, I expect you to fill completely the remainder of this page. Note, that simply listing the principles is worth no points, it is the correct application of the Principles that I am grading. Use the back of pages, if you need more room.

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1. (3 points) Your grandmother, instead of going out to dinner on the night you were born, deposited the expected cost of the meal \$37.02 in a small cap mutual fund. Over your lifetime, the fund returns the historical average of 17.9%. Assuming you take no withdrawals during your life, at your social security retirement age of 67 (end of year 67), how much money would you expect to have in the mutual fund? Calculate your answer to the nearest \$.01.

2. (3 points) Assume that you currently have \$2,000. A rich uncle offers to give you nothing for the next 5 years, \$3,000 a year in Years 6 through 11, and \$12,000 in Year 12, with all cash flows to be received at the end of the year. If you expect a 9.3 percent rate of return, including your \$2000, what is the present value of these cash flows?

3. (3 points) Using the numbers from the above problem, and maintaining the 9.3% interest rate, how much would you expect to have in 15 years?

4. (3 points) What is the future value of an 8-year annuity due with annual payments of \$2,178, assuming a 4.4% nominal interest rate?

5. (3 points) You are offered an investment that pays your \$2000 per year for the next 20 years. In return, you must repay \$60,000 at the end of 21 years. If your required return is 7%, what is the net present value of this investment to you? Show your answer to the nearest \$.01 and be sure to use the negative sign if the NPV is negative.

6. (20 points) Fill in the missing numbers. Note, all of the below accounts will be used in creating the income statement or balance sheet. Use the back of the page, if needed.

Income/(loss) from operations \_\_\_\_\_

Interest expense, net \_\_\_\_\_

Other Non-Current Assets \_\_\_\_\_

Accrued Billings in excess of costs \_\_\_\_\_

Total Long-term Liabilities \_\_\_\_\_

Accounts receivable \_\_\_\_\_

Additional paid-in capital \_\_\_\_\_

Total liabilities and stockholders' equity \_\_\_\_\_

Revenues \_\_\_\_\_

Net income/(loss) \_\_\_\_\_

Current Assets held for sale associated with discontinued operations 90,307

Current Liabilities related to assets from discontinued operations 24,055

Loss before income taxes (4,320 )

Total assets \$ 580,933

Current maturities of long-term debt \$ 42,993

Cash and cash equivalents \$ 22,232

Preferred stock 50

Total current liabilities 230,995

Retained earnings (271,716 )

Total current assets 439,906

Gross profit 116,723

Other Operating Expenses 5,503

Prepaid expenses 12,926

Property and Equipment, net 41,084

Total stockholders' equity 143,168

Accounts payable and accrued expenses 132,659

Goodwill, net 82,883

Common stock 385

Long-term Bank Debt 15,040

Senior Subordinated Notes 173,208

Cost of services 785,561

Selling, general and administrative expenses 97,574

Inventories 19,558

Provision/(benefit) for income taxes (9,163)

Other Non-Current Liabilities 18,522