

Key

YOUR NAME _____

EXAM 1 FINC 4531

FALL 2009

YOU HAVE 85 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, completed in WEBCT, is worth 18 points.

1. The primary goal of a publicly-owned firm interested in serving its stockholders should be to:

max shareholder wealth

from UAP
Stock
PAC

2. What is the Balance Sheet Identity?

A = Liab + Equity
_{Assets}

3. What are the primary responsibilities of financial managers?

Investment
Financing
Op/Man

CB
CS Div
WCM

4. List the three main areas of Finance?

Corporate Finance
Investment
FI/Bank

5. List the two basic types of financial securities?

Debt
F Bond

Equity

6. Name four basic stockholder rights.

1. Vote
2. Rec Div
3. Spec/Liquidation Div
4. Preemptive

7. Assets are listed on the balance sheet in order of:

- a. decreasing liquidity.
- b. decreasing size.
- c. increasing size.

relative life.

SKIP

A & D

8. 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.

9. Fixed assets can be either tangible or intangible. Intangible assets may be very valuable, although they have no physical presence. Examples include trademarks or patents.

skid
A. True

B. False

10. The major advantage of a regular partnership or a corporation as a form of business is the fact that both offer their owners limited liability, whereas proprietorships do not.

A. True

B. False

11. An agency relationship exists when one or more persons delegates decision making authority to another person.

A. True

B. False

12. The Accounting Model view of the corporation looks similar to an abbreviated version of the income statement.

A. True

B. False

13. Copying answers from another student's exam would be an example of the behavioral principle.

A. True

B. False

14. List the four required financial statements?

BS IS SCF SRE

15. ESSAY QUESTION SCORE (UP TO 18 POINTS)

16. (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.

Common stock—\$2.50 par value 190	Total liabilities and equity 4,010
Cost of goods sold 1,262	Accumulated depreciation (839)
Related party receivables 205	Inventories 796
Other current assets 61	Gross profit 395
Total current liabilities 996	Total current assets 1,856
Long-term debt 288	Operating and selling expense 323
General and administrative expense 70	Operating loss (27)
Net property and equipment 465	Intangible assets, net 83
Long-term Investments in affiliates 175	Current portion of debt 45
Accounts payable 595	Accrued compensation expenses 339
Loss before income taxes (31)	Income tax benefit 14
Net loss (17)	Preferred dividends 1
Retained Earnings (843)	Total shareholders' equity 308
Receivables 499	Land and Buildings 521
Machinery and equipment 783	Additional paid-in capital 923
Total property and equipment 1,394	Long Term Compensation Expense (liability) 674

Other long-term obligations <u>1744</u> <u>1745</u>	→ 38	• Preferred stock—no par value <u>37</u>
• Sales <u>1657</u>	→	• Other non-current assets <u>1431</u>
• Total assets <u>4010</u>		• Other operating expenses <u>29</u>
• Net Interest expense <u>4</u>		• Cash <u>295</u>
• Income tax payable <u>17</u>		• Net loss available to common shareholders <u>(18)</u>

$70 + = 8$
 $60 - 70 = 16$
 $51 - 60 = 12$
 $41 - 50 = 8$
 $40 - = 5$

$58 + 14 = 72$

	Low	High	Avg
Open	0	18 18	7
Scra	4	20	
Close	6	38	21

Sales \$ 1,657
 Cost of goods sold 1,262
 Gross profit 395
 Operating and selling 323
 General and administrative 70
 Other operating expenses 29
 Operating loss (27)
 Net Interest expense 4
 Loss before income taxes (31)
 Income tax benefit 14
 Net loss (17)
 Preferred dividends 1
 Net loss available to common shareholders (18)

Cash 295
 Receivables 499
 Related party receivables 205
 Inventories 796
 Other current assets 61
 Total current assets 1,856
 Land and Buildings 521
 Machinery and equipment 783
 Total property and equipment 1,304
 Accumulated depreciation (839)
 Net property and equipment 465
 Intangible assets, net 83
 Long-term Investments in affiliates 175
 Other non-current assets 1431
 Total assets 4,010

Current portion of debt 45
 Accounts payable 595
 Income tax payable 17
 Accrued compensation expenses 339
 Total current liabilities 996
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Other long-term obligations _____

Preferred stock—no par value _____

Sales _____

Other non-current assets _____

Total assets _____

Other operating expenses _____

Net Interest expense _____

Cash _____

Income tax payable _____

Net loss available to common shareholders _____

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1. (3 points) How much should invest today in order have \$2,000,000 in 50 years with a compound nominal interest rate of 8%?

AON $n=50$ $I=8$ PV 42642.45 $FV = 2000000$
 $PMT=0$

2. (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?

AON $n=8$ $I=4.4$ $PV=0$ BGN $FV = 21252.58$
 $PMT=2178$

3. (4 points) You are offered an investment in which you pay \$2000 per year for the at the beginning of the next 20 years. In return, you will receive \$60,000 at the end of 20 years. If your required return in 7%, should you make the investment? Explain your answer. .5 points for the correct answer, 3.5 points for math to support the correct answer.

B.S. 3.5 BGN $n=20$ $PV=0$ $FV 60000$ $PV=14490$ $I=7$ $PV=22671$ 3.72%
 NO return is too low

4. (4 points) You have a 30 year mortgage with monthly payments. The mortgage is for \$155,000 and the annual percentage rate on the loan is 6.0%. Assuming you make all payments on time. Over the 30-year life of the loan, what is the total amount of interest you will pay?

2 $PV=155000$ $FV=0$ $929.36 \times 360 = 339548$
 $n=30 \times 12 = 360$ $PMT=929.30$ -155000
 $I=6/12 = .5$ $179,548$

5. (4 points) Assume that you will receive \$3,000 a year in Years 1 through 4, \$0 a year in Years 5 through 8, and \$11,000 in Year 9-15, with all cash flows to be received at the end of the year. If you require a 5.8 percent rate of return, what is the present value of these cash flows?

AON 49836.19

6. (3 points) If a company that is in an 18% tax bracket invests in assets that increase its depreciation expense by \$910 per year, its change in cash flow is _____. Enter your answer to the nearest \$.01.

AON 163.80