

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:

2. What is the Balance Sheet Identity?

3. What are the primary responsibilities of financial managers?

4. List the three main areas of Finance?

5. List the two basic types of financial securities?

6. Name four basic stockholder rights.

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

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

- a. decreasing liquidity.
- b. decreasing size.
- c. increasing size.
- d. relative life.

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.

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 person's 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?

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
Cost of goods sold 1,262
Related party receivables 205
Other current assets 61
Total current liabilities 996
Long-term debt 288
General and administrative expense 70
Net property and equipment 465
Long-term Investments in affiliates 175
Accounts payable 595
Loss before income taxes (31)
Net loss (17)
Retained Earnings (843)
Receivables 499
Machinery and equipment 783
Total property and equipment 1,304

Total liabilities and equity 4,010
Accumulated depreciation (839)
Inventories 796
Gross profit 395
Total current assets 1,856
Operating and selling expense 323
Operating loss (27)
Intangible assets, net 83
Current portion of debt 45
Accrued compensation expenses 339
Income tax benefit 14
Preferred dividends 1
Total shareholders' equity 308
Land and Buildings 521
Additional paid-in capital 923
Long Term Compensation Expense (liability) 674

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 _____

YOUR NAME _____

EXAM 1 FINC 4531

FALL 2010

Instructions:

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- 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!

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%?

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?

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.

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 your will pay?

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?

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.

Essay Question, Online in WEBCT

Many people are looking for “true love.” Failing that, a successful long term relationship is often an appropriate goal. In this essay, you are to apply the “Principles of Finance” to create a plan that will find you either “true love” or a successful long term relationship. If you already have this “true love,” pick a friend and design a plan for them. Your plan must contain the following four elements. 1. You must state what you are looking for, “true love” or a successful long term relationship and the amount of time needed to succeed in your goal. You must also apply a principle of finance to explain why you chose either love or relationship. 2. You must list the attributes of your “true love.” 3. You must list the items that have caused you not be successful (i.e. violations of the principles of finance) in the past. 4. Finally you must list the where, when, and how you will meet your “true love.” In answering the question, you must correctly use at least six different principles of finance. Your answer must be a minimum of 750 words and a maximum of 1250 words. Submit your answer as a word document file. The paper should be double-spaced using one inch margins and Times Roman 12 point print.

Please address the previous questions using several paragraphs in an essay format. Please do not number your answers. Structure your answers to make them flow continuously from one paragraph to the other.

You can either upload your answer as a .doc file or copy paste into the answer box. This question is worth 18 points. I am using forced separation grading on this question, with grades of 6, 10, 14, and 18. 25% of the class will receive each grade. Also, after you upload your answer, please use the WEBCT email function to attach your answer and email the answer to me in WEBCT email. Those not completing the assignment or turning in very low quality work will receive 0. The assignment is due by 6:30 pm on September 5, 2010.