

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 4-6 points. The Essay question, completed in WEBCT, is worth 20 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 expected net income
 - e. Maximize the value of the firm.

2. As defined by your book and instructor, what is finance? Use at least 3 sentences in your answer.

Finance is about valuation. Financier says the value of anything is the PV of expected cash flows discounted at a risk-adjusted discount rate. I more true statement, they choose

- 3a. From a recent news article, "...a man who tricked an airline into giving him 300 free meals thanks to one first class ticket is being heralded as a hero. According to Eater, a Chinese man bought one first-class plane ticket and would show up to the first class VIP lounge at Xi'an airport to enjoy a free meal. After eating he would change his ticket to a different day and then return again to eat and change his flight. Three-hundred complimentary meals later and the airline finally started to get suspicious. Once they began an investigation though, the swindler simply cancelled his ticket altogether and — wait for it — received a FULL refund."

This behavior is most consistent with which of the following terms?

- | | | | |
|--|---------------------|------------------|---------------------|
| <input checked="" type="radio"/> a. hubris | b. diversification | c. IPO | d. secondary market |
| <input type="radio"/> e. moral hazard | f. set of contracts | g. risk aversion | h. globalization |

- 3b. Explain why your answer to the above question is correct?

Best is moral hazard, as it is unlikely airline considered this likelihood when setting the price, therefore principal is bearing the cost not the agent (man). (unexpected) - Equity

4. (3 points) The two basic types of financial securities that firms issue are Debt and Equity

5. Which of the following is a type of money-market security?

- | | | |
|--|-------------------|----------------|
| <input checked="" type="radio"/> a. Commercial paper | b. Long-term Debt | c. Call Option |
| d. Preferred Stock | e. Common Stock | |

A

6. As listed in the book, what are the four rights of common stockholders?

voting
regular dividends
liquidating dividend

pre-emptive

7. All of the following items represent liabilities with the exception of:

- a. long-term debt
- b. notes payable
- c. current portion of long term debt
- d. accrued expenses
- e. prepaid expenses

FE

8. List the four financial statements required for publically traded companies in the United States.

- 1. IS
- 2. S.C.F.
- 3. BS
- 4. S owners equity

9. A dividend yield is:

- a. the amount of money distributed to shareholders.
- b. dividends paid to shareholders divided by retained earnings.
- c. the dividend per share divided by the share price.
- d. retained earnings divided by sales.
- e. none of the above

CO

10. (8 points) You have 50 employees. You determine that an employee is, and has been, stealing \$50 per week from your company. In all respects, including the \$50 level of theft, you believe this person to be an average employee.

a. According to Accounting, by how much are your profits reduced due to the theft? Briefly (2-4 sentences) explain your answer.

5. (8 points) You have 50 employees. You determine that an employee is, and has been, stealing \$100 per week from your company. In all respects, including the \$100 level of theft, you believe this person to be an average employee.

a. According to Accounting, by how much are your profits reduced due to the theft? Briefly explain your answer.

Best Answer 0, the theft ongoing, so while we may shift some internal accounts, the impact on reported total profits is 0.

2. If theft just began, then reduce operating profits by $50 * \$100$ and produced impact on net income of $(50 * 100 * (1 - \text{tax rate}))$. This is unlikely.

3. From managerial accounting standpoint, impact could be \$100 when charged to a certain department, other 4900 is still not allocated as we have not enough information, overall corporate profits impact is still 0.

b. According to Finance, by how much is the value of your company reduced due to the theft? Briefly explain your answer.

Best answer is 0, this is an agency cost and agency costs are born by the agent (employee) not the principal (either shareholders or other employees depending on view)

Second best answer, assume this is new style of theft and therefore moral hazard, then impact on value is present value of $((50 * 100) * (1 - \text{tax rate}))$ per week discounted at an appropriate risk adjusted discount rate until contract can be changed so that agency cost is born by the agent.

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Instructions:

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1. (3 points, all or none) How much should invest today in order have \$1,500,000 in 33 years with a compound annual interest rate of 4.4%?

$FV = 1,500,000$ $PMT = 0$
 $N = 33$
 $I = 4.4\%$

$PU = \underline{362,221.98}$

2. (4 points, all or none) What is the 8-year future value of an annuity due, with annual payments of \$220? The nominal annual interest rate is 6.2%, with quarterly compounding of interest. Show your answer to the nearest \$.01?

② ~~Begin~~
 $EA(6.2, 4) = 6.3456\%$

② Begin $PMT = 220$
 $N = 8$
 $I = 6.346$
 $PU = 0$

$FV = \underline{2344.54}$
~~1787.54~~

3. (5 points) You have a 20 year mortgage with monthly payments. The mortgage is for \$140,000 and the annual percentage rate on the loan is 3.6%. Assuming you make all payments on time, how much (\$) of the 100th payment is principal?

② $PU = 140,000$
 $N = 20 \times 12 = 240$
 $I = 3.6 / 12 = .3$
 $FV = 0$
 $PMT = \underline{\$819.16}$

③ w/c/c
 $n = 99, FV = 94068.17$
 $n = 100, FV = 93531.22$

$220 \times .64 = -2$
 819.16
 $- (94068.17)$
 $\underline{28.20 \times .003}$
 $= 539.96$

~~716.95~~
 $\underline{536.95}$

4. (4 points, all or none) Assume that you will receive \$37 a year in Years 1 through 5, \$65 a year in Years 6 through 8, and \$51 in Years 9 and 10, with all cash flows to be received at the end of the year. If you require a 6.5 percent rate of return, what is the present value of these cash flows?

AON $NPV(6.5, 0, \{ 37, 65, 51 \}, \{ 5, 3, 2 \})$

$\underline{335.51}$

5. (4 points) If a company that is in a 34 % tax bracket invests in assets that increase its depreciation expense by \$ 1,037 per year, its change in annual cash flow is ~~352.58~~. Enter your answer to the nearest \$.01.

$34\% \times 1037$

$\underline{352.58}$

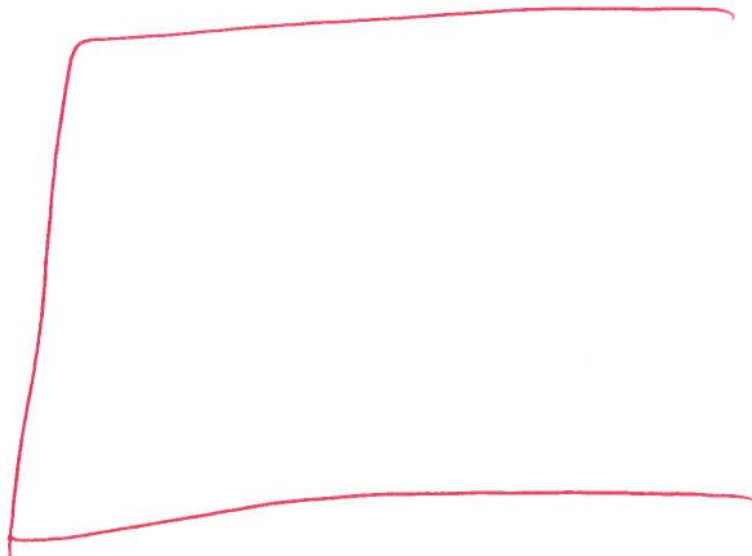
6. (22 points) Fill in the missing numbers. Use the back of the page, if needed.

Dividends 6	Cash and cash equivalents 17
Accounts receivable 16	Current portion of capital lease obligations 4
Gross profit 303	Merchandise inventories 271
Total current assets 312	Total assets 407
Accrued expenses 65	Selling and administrative expense 253
Total current liabilities 162	Net income 15
Deferred rent (long-term) 21	Common stock (\$0.01 par value) 2
Operating income 26	Total liabilities 242
Long-term debt 47	Property and equipment, Net 76
Retained earnings 87	Other long-term liabilities 9
Cost of sales 637	Less: Treasury stock -26
Interest expense 2	

Additions to Retained Earnings 16 <u>9</u>	Net sales <u>940</u>
Accounts payable 87 <u>93</u>	Depreciation <u>24</u>
Income before income taxes 124 <u>24</u>	Goodwill <u>19</u>
Additional paid-in capital <u>102</u>	Income taxes <u>9</u>
Capital lease obligations (long term liability) <u>3</u>	Prepaid expenses <u>8</u>
Total liabilities and stockholders' equity <u>407</u>	

.4
ch1

9
940
93
24
19
102
8
3
407



Essay Question, Online in D2L

For this question, you are to write a good quality essay of between 750 and 1250 words. You will be graded on both the quality of your discussion and quality of your essay. If you are unsure of how to write an essay, then contact the Writing Center (<http://www.westga.edu/writing/>). This essay is worth 20 points on Exam 1.

The decision to marry is one of the most important financial decisions in one's life. Until recently, marriage was mostly a financial/property decision, with love being viewed as irrelevant (<http://en.wikipedia.org/wiki/Marriage>). In this essay, you will answer some questions.

Everyone will answer the question, 1. Will you get married?

If your answer is yes, you will then answer, 2. Who and when you will marry? 3. What will be the primary motivations for your marriage (love, sex, money, children, security, business alliance, citizenship, etc.)? If you have words left, you could answer if the marriage be permanent?

If you decide not to marry or do not believe you can find a positive NPV spouse, use the principles of finance to justify your decision. Also, if there are aspects of marriage you desire (love, sex, money, children, security, business alliance, citizenship, etc.); you should discuss how you will acquire these aspects.

You will apply the Chapter 2 Principles of Finance to support your answers to the above questions. Stated in a different way, proper use of the principles of finance is more important than any particular answer. I do think the answers will vary significantly based on the demographics of the authors.

For this essay, assume you are not married. If you are currently married or engaged, it is perfectly acceptable to state you would marry your current spouse/fiancé. Also, you may define your planned marriage (provided it is legal in the area you plan to live) as any of the marriage types listed in the Wikipedia article on marriage.

For your essay, you should apply the Principles to the various relevant stakeholders. As a minimum, this is you and your potential spouse, and possibly family, friends, work unit, government, etc. Early in your essay, use a paragraph to describe yourself with both objective (age, sex, nationality, level of wealth, etc.) and subjective (belief in monogamy, level of desire to have children, cultural biases, type of job you expect to have, etc.) factors. If you plan to get married, you should do a similar paragraph about your expected spouse. This description will help me in determining the believability of your answers.

In the D2L Dropbox, you should upload your answer as a .doc/.docx file. You can also email your answer, as an attachment, to chodges@westga.edu. This question is worth 20 points. I am using forced separation grading on this question, with grades of 11, 14, 17, and 20. 25% of the class will receive each grade. Those not completing the assignment or turning in very low quality work will receive 0. The length of your essay should be between 750 and 1250 words. The paper should be double-spaced using one inch margins and Times Roman 12 point print. Longer or shorter papers will have their grades reduced. The assignment is due by 11:30 pm on January 28, 2014.

Sales 2316
Cost of sales 1476
Gross profit 840
General and administrative 222
Advertising 273
Depreciation 14
Income from operations 331
Interest income, net 1
Income before provision for income taxes 332

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Cost of sales 637
Gross profit 303
Selling and administrative expense 253
Depreciation 24
Operating income 26
Interest expense 2
Income before income taxes 24
Income taxes 9
Net income 15
Additions to Retained Earnings 9
Dividends 6

Cash and cash equivalents 17
Accounts receivable 16
Merchandise inventories 271
Prepaid expenses 8
Total current assets 312
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Total liabilities and stockholders' equity 407