

Exam I Fall 2002 FINC 4532 Answers

1. c. Shareholder Wealth Maximization.
2. e. 1, 5, 4, 3, 2
3. Her firm is considering going from non-SEC registered with few shareholders to SEC-registered with many shareholders. She plans to make presentations to institutional shareholders in order to increase the expected selling price of the stock.
4. Her firm is in financial distress and she attempted an informal reorganization of the firm. This is not working as a former friend is refusing to accept the deal that other creditors are willing to accept. She expects to file Chapter 11 bankruptcy as then the bankruptcy judge would order the former friend to accept the deal that other creditors are willing to accept.
5. This is a badly written question from a former textbook, the topic is not covered in this textbook. I accepted two answers.
  - d. Facilitates stockholder diversification.
  - e. Changes liquidity of the firm's stock.
6. Note covered in this textbook.
7. a. True
8. b. False, bankruptcy begins only when the firm files for bankruptcy, and a bankruptcy judge accepts the request.
9.
  - d. Chapters 11 and 7 are the most important bankruptcy chapters for financial management purposes. If a reorganization plan cannot be worked out under Chapter 11, then the company will be liquidated as prescribed in Chapter 7 of the Act.

1. (12 points) The Wek Company, whose stock price is now \$40, needs to raise \$30,000,000 in common stock. Underwriters have informed management that they must price the new issue to the public at \$37 because of a downward sloping demand curve. The underwriter's compensation will be 6% of the issue price. The firm will also incur expenses of \$200,000.

- a. (5 points) How many shares must the firm sell in order to raise \$30 million after underwriting and flotation costs.

$(30000000+200000)/(1-6\%)=32,127,659$  for face value of equity sold.

$32,127,659/37=868,315$

- b. (3 points) If the firm currently has 20,000,000 shares, what is the market value of the firm's common stock before the new stock issue is announced?

$20000000*40=800,000,000$

- c. (4 points) What is the market value of the firm's common stock after the new stock issue is completed?

$20868315*37=\$772,127,659$

3. This topic is from a former textbook, the topic is not covered in this textbook.

3. (15 points) Below is the Notart Company's Balance Sheet. The firm is in Chapter 7 bankruptcy and is being liquidated. The firm's Trustee's are owed \$1,500,000. Given the below balance sheet, write out the amounts collected by each of the firm's creditors.

		Amount Collected			Amount Collected
CURRENT ASSETS	\$40.0	<u>14</u>	ACCOUNTS PAYABLE	\$10.0	<u>10*13.5/19</u>
NET FIXED ASSETS	5.0	<u>5.5</u>	NOTES PAYABLE (BANKS)	4.0	<u>4*13.5/19</u>
			ACCRUED WAGES	0.3	<u>.3</u>
			FEDERAL TAXES	0.5	<u>.5</u>
			STATE/ LOCAL TAXES	1.2	<u>1.2</u>
			CURRENT LIABILITIES	\$16.0	
			FIRST MORTGAGE	\$ 2.0	<u>2.0</u>
			SECOND MORTGAGE	0.5	<u>.5</u>
			DEBENTURES	5.0	<u>5*13.5/19</u>
			TOTAL LONG-TERM DEBT	\$ 7.5	
			PREFERRED STOCK	\$ 1.0	<u>0</u>
			COMMON STOCK	13.0	<u>0</u>
			PAID-IN CAPITAL	2.0	<u>0</u>
			RETAINED EARNINGS	5.5	<u>0</u>
			TOTAL EQUITY	\$21.5	
TOTAL ASSETS	\$45.0		TOTAL CLAIMS	\$45.0	

THE LIQUIDATION SALES RESULTED IN THE FOLLOWING PROCEEDS:

FROM SALE OF CURRENT ASSETS	\$14,000,000
FROM SALE OF FIXED ASSETS	\$5,500,000
TOTAL RECEIPTS	\$19,500,000