Fall 2003 Exam 1 Answer Key

Closed Book portion of test
1. The goal of a firm is to maximize shareholders wealth. To do this managers choose projects based on their present value. Present value is the value of expected future cash flows discounted at an appropriate risk-adjusted discount rate.
2. C
3. A
4. A
5. B
6. A
7. False
8. Voting control, cash dividends, liquidating dividends and preemptive rights
9. False
10. True
11. A
12. C
13. False
14. False
15. D
16. Income statement, balance sheet, statement of cash flows, and statement of retained earnings
17. D
18. Current liabilities are liabilities that have to be paid within one year and long-term liabilities are to be paid in more than a year. Liabilities are things that we owe.

ESSAY Question-lots of answers accepted.

Open Book portion of test
1. $1285.92
2. $506.68
3. Beginning Retained Earnings (5,000,000) + Net Income (1,000,000) – Dividends (either 400,000 or 300,000) = Ending Retained Earnings. Two answers were accepted, 5,600,000 (preferred) or 5,700,000 depending assumed dividend level.
4. Balance Sheet
   As of December 31, 1999

   Cash and Marketable Securities __3__
   Accounts Receivable 3.6
   Prepaid Rent 1.0
   Inventory 9.5
   Total Current Assets 17.1
   Net Plant and Equipment _6.5____
   Total Assets _23.6____
Accounts Payable ____3.4____
Current Portion of Long Term Debt 1.7
Other Short Term Liabilities 3.0
Total Current Liabilities __8.1____
Long Term Debt 3.5
Paid In Capital 4.0 (an equity account)
Common Stock (.01 par) 1.0
Retained Earnings 7.0
Total Liabilities and Stockholder’s Equity 23.6

Income Statement
For the Period January 1, 1999 to December 31, 1999
Sales 74.0
Cost of Goods Sold _45.5_____
Gross Profit 28.5
Selling and Administrative Expenses 13
Labor Expense 6.0
Depreciation 2.5
EBIT __7.0____
Interest Expense .5
Earnings before Taxes _6.5____
Income Taxes __3.0____
Net Income 3.5