

Multiple choice – 3 points each – 54 points total

1. IBM has decided that they wish to issue stock to fund a new project. When the stock is issued it will be sold on the:
 - A. NYSE
 - B. Nasdaq
 - C. Amex
 - D. primary market
 - E. secondary market

2. Which of the following corporations is most likely to have a negative cash flow from assets?
 - A. A young, high growth technology firm.
 - B. A mature, slow growth automobile manufacturing firm.
 - C. An aggressive, medium growth pharmaceutical firm.
 - D. A mature, electric utility firm.
 - E. Insufficient information.

3. Linnemann's and Lonnergann's, two firms in the casino industry, have identical asset turnover and profit margins. Linnemann's has a return on equity of 20%, while Lonnergann's has a return on equity of 25%. Which of the following statements must be true?
 - A. They must have different returns on assets.
 - B. They must have different levels of operating efficiency.
 - C. They must differ in the efficiency of assets use.
 - D. They must have different levels of financial leverage.
 - E. The above situation is not possible.

4. Firm RF has a PE ratio of 10, while the industry average is 16. Which of the following statements is true?
 - I. Firm RF has a lower stock price than the industry average.
 - II. Firm RF has more outstanding shares than the industry average.
 - III. One dollar of RF's earnings is cheaper than the industry average.
 - A. I only
 - B. II only
 - C. III only
 - D. I and II only
 - E. I and III only

5. You are evaluating two annuities. They are identical in every way, except that one is an ordinary annuity and one is an annuity due. Which of the following is FALSE?
- A. The ordinary annuity must have a lower present value than the annuity due.
 - B. The ordinary annuity must have a lower future value than the annuity due.
 - C. The annuity due must have the same present value as the ordinary annuity.
 - D. The two annuities will differ in present value by the amount $(1 + R)$.
 - E. The annuity due and the ordinary annuity will make the same number of total payments over time.
6. Which of the following statements about the current ratio is FALSE?
- A. This ratio is a meaningful measure of liquidity because the book value of the assets and liabilities used in the calculation tend to deviate only slightly from market values.
 - B. This ratio is calculated by dividing current assets by current liabilities.
 - C. It will always be greater than the quick ratio in companies that carry inventory.
 - D. This ratio is intended to indicate the short run liquidity position of the firm.
 - E. The higher the current ratio, the higher the level of cash must be for the firm.
7. In words, what does an equity multiplier of 4 mean?
- A. Each dollar in assets the firm owns is supported by \$4 in equity.
 - B. Each dollar in assets the firm owns is supported by \$4 in debt.
 - C. Each dollar in equity the firm has supports \$4 in assets.
 - D. Each dollar in assets the firm owns is supported by \$8 in equity.
 - E. Each dollar in equity the firm has supports 25 cents in assets.
8. Nolan Inc. has sales of \$1,000,000, an inventory turnover of 10.0, and has current liabilities of \$150,000. The firm's current ratio is 3.0, while its quick ratio is 2.5. What are Nolan's current assets?
- A. \$200,000
 - B. \$360,000
 - C. \$450,000
 - D. \$540,000
 - E. \$600,000
9. Which of the following can be calculated with the use of only a balance sheet?
- A. Profit margin.
 - B. Equity multiplier.
 - C. Receivables turnover.
 - D. Times interest earned.
 - E. Return on equity.
10. Which of the following appears to be the most appropriate goal for corporate management?
- A. Maximizing market value of the company's shares.
 - B. Maximizing the company's market share.
 - C. Maximizing the current profits of the company.
 - D. Minimizing the company's liabilities.
 - E. Maximizing the company's assets.

11. All other factors held constant, present value _____ as the number of discounting periods per year increases, and an increase in the number of compounding periods per year _____ the future value.
- A. increases, increases
 - B. increases, decreases
 - C. decreases, increases
 - D. decreases, decreases
 - E. remains the same, remains the same
12. Curly is going to receive a perpetuity of \$3,000 per year beginning in one year. Moe will also receive a perpetuity of \$3,000 per year but his first payment will not be received until 30 years from today. How much more is Curly's cash flow worth today if the interest rate is 8.5%?
- A. \$0
 - B. \$10,532
 - C. \$18,583
 - D. \$25,441
 - E. \$31,981
13. Limited liability is faced by the owners of:
- A. sole proprietorships.
 - B. partnerships.
 - C. corporations.
 - D. all forms of business organization.
 - E. A and B only.
14. Your company has applied for a loan of \$200,000. The loan will be amortized over 30 years and carry an interest rate of 10% and have annual payments. The loan agreement calls for a balloon payment after the 8th payment. What is the amount of the balloon payment?
- A. \$184,212
 - B. \$186,096
 - C. \$189,807
 - D. \$195,302
 - E. \$196,218
15. Cash flows in different periods should not be compared unless:
- A. interest rates are expected to remain stable.
 - B. the cash flows occur no more than one year from each other.
 - C. high rates of interest can be earned on the cash flows.
 - D. the cash flows have been discounted to a common date.
 - E. None of the above.

16. Which of the following is not required for the calculation of operating cash flows?
- A. Dividends paid.
 - B. EBIT.
 - C. Depreciation.
 - D. Taxes.
 - E. All of the above are needed.
17. Vito Corleone will loan you money on a “four-for-five arrangement”; i.e., for every \$4 he gives you today, you owe him \$5 in one week. What is the EAR of the loan?
- A. 250%
 - B. 869%
 - C. 1,095%
 - D. 109,475%
 - E. 10,947,544%
18. What is the effect on net working capital if the corporation decides to increase its investment in inventory and pay for it with cash?
- A. Increase in net working capital.
 - B. Decrease in net working capital.
 - C. Depends on the amount of the investment.
 - D. No change in net working capital.
 - E. None of the above.

Partial Credit Problems --- SHOW ALL WORK --- 46 points total

Problem 1 (13 points) Roten Co. shows the following information on its most recent income statement: sales = \$127,000, costs = \$64,300, other expenses = \$3,800, depreciation expense = \$9,600, interest expense = \$7,100, taxes = \$15,210, dividends = \$8,400. In addition, you are told the firm issued \$2,500 in new equity during the year, and redeemed \$3,800 in outstanding long-term debt.

- a. What was the operating cash flow during the year?
- b. What was the total cash flow to creditors?
- c. What was the cash flow to stockholders?
- d. If net fixed asset increased by \$13,600 during the year, what was the addition to NWC?

Problem 2 (10 points) You borrow \$250,000 to purchase a house. The loan will be repaid over the next 25 years with equal monthly payments. Your mortgage broker quotes you an APR of 4.9 percent. Construct a loan amortization table for the first 12 months of the loan.

Problem 3 (10 points) You will receive payments of \$4,000 per quarter for 15 years with the first payment occurring 7 years and 9 months from today. The appropriate interest rate is 10 percent compounded quarterly. What is the value of the payments 4 years from today? What is the value of the payments today?

Problem 4 (13 points) You are saving for retirement and currently have \$125,000 in your retirement account. You plan to save an additional \$500 per month for the next 25 years. When you retire, you will make monthly withdrawals for 30 years. Additionally, you want to go on a trip around the world in 10 years. You expect the cost of the trip will be \$100,000. You can earn a 10.2 percent APR before you retire and a 6.1 percent APR after you retire. How much can you withdraw each month and have nothing left at the end of 30 years?