

Corporate finance exam mba assignment

[Business](#)



User| Long Yang| Submitted| 9/8/11 6: 45 PM| Name| Midterm Exam I| Status| Completed| Score| 69 out of 75 points ??| Time Elapsed| 3 hours, 28 minutes, and 53 seconds out of 3 hours and 30 minutes allowed. | Instructions| Good luck! | | * Question 1 1 out of 1 points | | | Both New York Stock Exchange and NASDAQ are examples of secondary markets. Answer| | | | Selected Answer:| ?? True| Correct Answer:| ?? True| | | | * Question 2 1 out of 1 points | | | Financial manager can create value for a firm by creating more cash flow for it than it uses.

To do so, they should make investment decisions so that the firm may buy assets that generate more cash than they cost. Answer| | | | Selected Answer:| ?? True| Correct Answer:| ?? True| | | | * Question 3 1 out of 1 points | | | The separation of ownership from management gives the corporation several advantages over other types of firms. One of them is the unlimited liability. Answer| | | | Selected Answer:| ?? False| Correct Answer:| ?? False| | | | * Question 4 1 out of 1 points | | Two important financing decisions for a corporate financial manager are debt policy decision and dividend policy decision. Debt policy asks what level of debt is best for the firm. The dividend policy asks what dividend payout ratio is best for the firm. Answer| | | | Selected Answer:| ?? True| Correct Answer:| ?? True| | | | * Question 5 1 out of 1 points | | | In the statement of cash flows, a decrease in accounts receivable is classified as a source of cash from operations. Answer| | | | Selected Answer:| ?? True| Correct Answer:| ?? True| | | | * Question 6 1 out of 1 points | | If a firm total asset turnover is lower than the industry average, it indicates that the company is not generating a sufficient volume of business given its total asset investment. Answer| | | | Selected

Answer:| ?? True| Correct Answer:| ?? True| ||| * Question 7 1 out of 1 points ||| If other things remain the same, the return on equity (ROE) of a firm will go higher as the firm decreases its debt ratio. Answer| ||| Selected

Answer:| ?? False| Correct Answer:| ?? False| ||| * Question 8 1 out of 1 points ||| In general, firms with high P/E ratios tend to have high MV/BV ratios.

Answer| ||| Selected Answer:| ?? True| Correct Answer:| ?? True| ||| * Question 9 1 out of 1 points ||| The objective of the capital budgeting decision is to maximize the stock price of the company, and it is achieved by maximizing the present value of the growth opportunities. Answer| |||

Selected Answer:| ?? True| Correct Answer:| ?? True| ||| * Question 10 1 out of 1 points ||| The payback period rule accepts all investment projects in which the payback period for the cash flows is greater than the cutoff point.

Answer| ||| Selected Answer:| ?? False| Correct Answer:| ?? False| |||

Question 11 1 out of 1 points ||| A project may have more than one IRR if the cash flow pattern exhibits more than one sign changes. Answer| |||

Selected Answer:| ?? True| Correct Answer:| ?? True| ||| * Question 12 1

out of 1 points ||| In a regular project with an initial cash outflow and subsequent cash inflows, the net present value is negative when the cost of capital is less than IRR. Answer| ||| Selected Answer:| ?? False| Correct

Answer:| ?? False| ||| * Question 13 1 out of 1 points ||| If the profitability ratio of a project is smaller than 1, it means the NPV of the project is negative.

Answer| ||| Selected Answer:| ?? True| Correct Answer:| ?? True| ||| *

Question 14 1 out of 1 points ||| In a regular project with an initial cash

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outflow and subsequent cash inflows, the net present value increases as the required rate of return ($= R$) increases. Answer| | | | Selected Answer:| ??

False| Correct Answer:| ?? False| | | | * Question 15 1 out of 1 points | | |

When we have two mutually exclusive projects, if NPV and IRR lead to inconsistent rankings, we should follow the IRR rule. Answer| | | | Selected Answer:| ?? False| Correct Answer:| ?? False| | | | * Question 16 0 out of 1

points | | The depreciation tax shield is calculated by $(1-T) * \text{Depreciation}$, where T is the firm's marginal tax rate. Answer| | | | Selected Answer:| ??

True| Correct Answer:| ?? False| | | | * Question 17 1 out of 1 points | | | An

increase in NWC is treated as a cash inflow in capital budgeting cash flow estimation. Answer| | | | Selected Answer:| ?? False| Correct Answer:| ??

False| | | | * Question 18 1 out of 1 points | | | In capital budgeting cash flow estimation, sunk costs should not be included. Answer| | | | Selected

Answer:| ?? True| Correct Answer:| ?? True| | | | * Question 19 0 out of 1

points | | A firm using MACRS accelerated depreciation will be less likely to accept a given project using either NPV or IRR evaluation than a firm using the optional straight line alternative, other things being equal. Answer| | | |

Selected Answer:| ?? True| Correct Answer:| ?? False| | | | * Question 20 0 out of 1 points | | | The _____ is the cash flow actually available for

distribution to investors after the company has made all the investments in fixed assets and working capital necessary to sustain ongoing operations.

Answer| | | | Selected Answer:| ?????? net cash flow| Correct Answer:| ??????

cash flow from assets| | | | Question 21 0 out of 1 points | | | Which one of the following is the formula for the cash flow to creditors? Answer| | | |

Selected Answer:| ??????-interest paid – retirement of debt + proceeds from new debt| Correct Answer:| ?????? interest paid + retirement of debt –

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proceeds from new debt| | | | * Question 22 1 out of 1 points | | | The costs of resolving the conflict of interest between managers and shareholders are called _____ costs. Answer| | | | Selected Answer:| ?????? agency|

Correct Answer:| ?????? agency| | | | * Question 23 1 out of 1 points | | | _____ are the markets in which corporations raise new capital.

Answer| | | | Selected Answer:| ?????? Primary markets| Correct

Answer:| ?????? Primary markets| | | | * Question 24 1 out of 1 points | | |

_____ are the markets for short-term debts. Answer| | | | Selected

Answer:| ?????? Money markets| Correct Answer:| ?????? Money markets| | | |

| * Question 25 1 out of 1 points | | | What is the effect on net working capital

if the corporation decides to increase its investment in inventory and pay for

it with cash? Answer| | | | Selected Answer:| ?????? No change in net

working capital. | Correct Answer:| ?????? No change in net working capital. |

| | | | * Question 26 out of 1 points | | | Total cash flow or free cash flow is

_____. Answer| | | | Selected Answer:| ?????? cash flow in

excess of that required to fund profitable capital projects. | Correct

Answer:| ?????? cash flow in excess of that required to fund profitable capital

projects. | | | | * Question 27 1 out of 1 points | | | Average accounting

return is determined by: Answer| | | | Selected Answer:| ?????? dividing the

average net income by the average investment| Correct Answer:| ??????

dividing the average net income by the average investment| | | | * Question

28 1 out of 1 points | | Money that the firm has already spent or is committed

to spend regardless of whether a project is taken is called a(n)Answer| | | |

Selected Answer:| ?????? sunk cost| Correct Answer:| ?????? sunk cost| | | | *

Question 29 0 out of 1 points | | | A reduction in the sales of an existing

product caused by the introduction of a new product is an example of a(n) Answer: | | | | Selected Answer: | ?????? opportunity cost | Correct

Answer: | ?????? erosion cost | | | | * Question 30 1 out of 1 points | | | During 2004, the Abel Co. had gross sales of \$500, 000. The firm's cost of goods sold and selling expenses were \$200, 000 and \$50, 000, respectively.

These figures do not include depreciation. Abel also had notes payable of \$1, 000, 000. These notes carried an interest rate of 10 percent. Depreciation was \$100, 000. Abel's tax rate in 2004 was 35%. What was Abel's net income? Answer: | | | | Selected Answer: | ??????\$32, 500 | Correct

Answer: | ??????\$32, 500 | | | | * Question 31 1 out of 1 points | | | In the above question, what was Abel's operating cash flow? Answer: | | | | Selected Answer: | ??????\$232, 500 | Correct Answer: | ??????\$232, 500 | | | | *

Question 32 1 out of 1 points | | | For the next 4 questions suppose the following data holds: Sales | 45000 | COGS | 25000 |

Depreciation | 2000 | Earnings Before?? Interest and Taxes (EBIT) | 18000 | Interest | 1000 | Taxable Income | 17000 | Taxes (34%) | 5780 | Net Income | 11220 | | Beginning | Ending | Current Assets | 5000 | 7500 | Current Liabilities | 4000 | 6000 | Net Working Capital | 1000 | 1500 | Net Fixed Assets | 30000 | 40000 | Assume that MBM Co. issued \$1000 new debt and paid off no old debt in 2007. It paid \$3000 dividends in 2007. It did not repurchase any of its common stock in 2007. | What is the operating cash flow of the firm for 2007? Answer: | | | | Selected Answer: | ??????\$14, 220 | Correct

Answer: | ??????\$14, 220 | | | | * Question 33 out of 1 points | | | What is the change in net working capital of the firm for 2007? Answer: | | | | Selected Answer: | ??????\$500 | Correct Answer: | ??????\$500 | | | | * Question 34 1 out

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of 1 points | | | What is the capital spending of the firm for 2007? Answer | | | |
| Selected Answer: | ?????? \$12, 000 | Correct Answer: | ?????? \$12, 000 | | | | *

Question 35 1 out of 1 points | | | What is the cash flow from the firm's assets
for 2007? Answer | | | | Selected Answer: | ?????? \$1, 720 | Correct
Answer: | ?????? \$1, 720 | | | | * Question 36 1 out of 1 points | | | What is the
cash flow paid to debt-holders in 2007?

Answer | | | | Selected Answer: | ?????? \$0 | Correct Answer: | ?????? \$0 | | | | *

Question 37 1 out of 1 points | | | What is the cash flow paid to stockholders
in 2007? Answer | | | | Selected Answer: | ?????? \$1, 720 | Correct

Answer: | ?????? \$1, 720 | | | | * Question 38 1 out of 1 points | | | How much
new common stock was issued in 2007? Answer | | | | Selected

Answer: | ?????? \$1, 280 | Correct Answer: | ?????? \$1, 280 | | | | * Question 39

1 out of 1 points | | | ABC Corp. had an ROA of 12%. ABC's profit margin was
4% on sales of \$150 million. What were total assets? Answer | | | | Selected
Answer: | ?????? \$50 million |

Correct Answer: | ?????? \$50 million | | | | * Question 40 0 out of 1 points | | |

The following information about XYZ Co. holds for the next three questions.

profit margin on sales | 3% | ROE | 15%. | debt-to-equity ratio | 0. 5 | What is the
debt ratio of XYZ Co.? Answer | | | | Selected Answer: | ??????. 50 | Correct

Answer: | ??????. 33 | | | | * Question 41 1 out of 1 points | | | What is the
equity multiplier of XYZ Co.? Answer | | | | Selected Answer: | ?????? 1. 5 |

Correct Answer: | ?????? 1. 5 | | | | * Question 42 1 out of 1 points | | | What is
the total asset turnover ratio of XYZ Co.? Answer | | | | Selected

Answer: | ?????? 3. 3 | Correct Answer: | ?????? 3. 33 | | | | * Question 43 1 out
of 1 points | | | Dell Inc. has a days in inventory (based on 365 days) of 15.

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Costs of goods sold were \$4, 526. Net working capital was \$100 and total current assets were \$400. What is Dell's quick ratio? Answer| | | | Selected Answer:| ?????? 0. 71| Correct Answer:| ?????? 0. 71| | | | * Question 44 1 out of 1 points | | | Tan Co. had total operating revenues of \$1, 000 over the past year. During that time, average receivables were \$100. What was the average collection period (ACP) given a 365-day year? Answer| | | | Selected Answer:| ?????? 36. 5 days|

Correct Answer:| ?????? 36. 5 days| | | | * Question 45 1 out of 1 points | | |

What is the future value of \$40, 000 invested for 14 months at a stated annual interest rate of 10 percent compounded monthly? Answer| | | |

Selected Answer:| ??????\$44, 928| Correct Answer:| ??????\$44, 928| | | | *

Question 46 1 out of 1 points | | | What is the net present value of a project that contributes \$10, 000 at the end of the first year and \$4, 000 at the end of the second year. The initial cost is \$8, 000 and the appropriate interest rate is 10%. Answer| | | | Selected Answer:| ??????\$4, 397| Correct

Answer:| ??????\$4, 397| | | | * Question 47 1 out of 1 points | | | Today's sales

are \$20 million. In how many years will sales grow into \$60 million if the firm's sales grow at an annual rate of 7 percent? Answer| | | | Selected

Answer:| ?????? 16. 2 years| Correct Answer:| ?????? 16. 2 years| | | | *

Question 48 1 out of 1 points | | | Aunt Clara has promised to leave you \$150 a year starting next year and have it increase at 4% a year thereafter. The payments are expected to go on indefinitely. How much has Aunt Clara left you if your opportunity cost is 10 percent? Answer| | | | Selected

Answer:| ??????\$2, 500|

Correct Answer:| ??????\$2, 500| ||| * Question 49 1 out of 1 points ||| In the above question, what is the present value of the cash flows if the first payment will be made in four years? Answer| ||| Selected Answer:| ?????? \$1, 878| Correct Answer:| ??????\$1, 878| ||| * Question 50 1 out of 1 points ||| You borrowed \$250, 000 to buy a house. The annual interest rate is 8%. You are going to make monthly payments starting 1 month from today for 30 years. What is the monthly payment? Answer| ||| Selected Answer:| ?????? \$1, 834. 4| Correct Answer:| ??????\$1, 834. 4| ||| * Question 51 1 out of 1 points ||| In the above question, what is the remaining balance of the loan after 20 years' payments? Answer| ||| Selected Answer:| ??????\$151, 195| Correct Answer:| ??????\$151, 195| ||| * Question 52 1 out of 1 points ||| What is the present value of 20 payments of \$1, 000 each received every 18 months at a discount rate of 8%? Answer| ||| Selected Answer:| ??????\$7, 360| Correct Answer:| ??????\$7, 360| ||| * Question 53 1 out of 1 points ||| The following data applies to the next 3 questions. After deciding to buy a new car, you can either lease the car or purchase it with a three-year loan. The car costs \$30, 000.

The dealer has a lease program where you pay \$100 today and \$400 per month for the next three years. If you purchase the car, you will pay it off in monthly payments over the next three years at a 7 percent APR. You believe that you will be able to sell the car for \$18000 in three years. | ?? What is present value of leasing including the initial payment of \$100? Answer| ||| Selected Answer:| ??????\$13, 054. 59| Correct Answer:| ??????\$13, 054. 59| ||| * Question 54 1 out of 1 points ||| What is the cost of keeping the car for

three years by purchasing it? Answer| | | | Selected Answer:| ??????\$15, 400. 58|

Correct Answer:| ??????\$15, 400. 58| | | | * Question 55 1 out of 1 points | | |

How much is the breakeven resale price of the car in three years that would make you indifferent between leasing and buying? | Answer| | | | Selected

Answer:| ??????\$20, 892. 43| Correct Answer:| ??????\$20, 892. 43| | | | *

Question 56 1 out of 1 points | | | The following data applies to the next 3

questions. A machine costs \$16, 000 and is expected to produce profit before depreciation of \$5, 000 in each of years 1 and 2, and \$6, 000 in each of years 3 and 4. Assume that the machine is depreciated at a constant rate of \$4, 000 a year and that there are no taxes. How much are the average

accounting earnings? Answer| | | | Selected Answer:| ??????\$1, 500| Correct

Answer:| ??????\$1, 500| | | | * Question 57 1 out of 1 points | | | How much

is the average accounting investment? Answer| | | | Selected

Answer:| ??????\$8, 000| Correct Answer:| ??????\$8, 000| | | | * Question 58

1 out of 1 points | | | How much is the average accounting return? Answer| | |

| | Selected Answer:| ?????? 18. 75%| Correct Answer:| ?????? 18. 75%| | | |

* Question 59 1 out of 1 points | | | F?? or the next 7 problems assume the

following net cash flows for projects X and Y. The company uses a 12 % cost of capital. Net Cash Flow| Year| Project X| Project Y| 0| -1200| -1500| 1| 550|

400| 2| 400| 400| 3| 800| 1500| What is the payback period of Project X?

Answer| | | | Selected Answer:| ?????? 2. 31 years| Correct Answer:| ??????

2. 31 years| | | | * Question 60 1 out of 1 points | | | What is the discounted

payback period of Project X? Answer| | | | Selected Answer:| ?????? 2. 68

years| Correct Answer:| ?????? 2. 68 years| | | | * Question 61 1 out of 1

points | | | What is Project X's NPV if the cost of capital is 12%? Answer| | | |

Selected Answer:| ?????? \$179. 37| Correct Answer:| ?????? \$179. 37| | | | *

Question 62 1 out of 1 points | | What is Project Y's NPV if the cost of capital

is 12%? Answer| | | | Selected Answer:| ?????? \$243. 69| Correct

Answer:| ?????? \$243. 69| | | | * Question 63 1 out of 1 points | | | Project X's

IRR is 19. 95%. What is Project Y's IRR? Answer| | | | Selected

Answer:| ?????? 19. 29%| Correct Answer:| ?????? 19. 29%| | | | * Question

64 1 out of 1 points | | | What is project X's PI (profitability index) if the cost

of capital is 12%? Answer| | | | Selected Answer:| ?????? 1. 15| Correct

Answer:| ?????? 1. 15| | | | * Question 65 1 out of 1 points | | | Which project

should be accepted if they are mutually exclusive?

Answer| | | | Selected Answer:| ?????? Y| Correct Answer:| ?????? Y| | | | *

Question 66 1 out of 1 points | | | For the next 8 questions suppose the

following data holds: IBC, Inc. is considering the purchase of a \$300, 000

computer that has an economic life of 5 years. The computer will be

depreciated according to 5-year MACRS schedule (20%, 32%, 19. 2%, 11.

52%, 11. 52%, and 5. 76%). The market value of the computer will be \$60,

000 in 5 years. The use of computer will save annual costs of \$120, 000 for

the next five years. For simplicity, these cost savings are assumed to occur

at the end of these years.

As a result of this project, the net working capital will increase by \$60, 000

immediately, and it will be recovered at the end of year 5. The firm's tax rate

is 40% and its cost of capital is 12%. | What is the initial investment

requirement (t= 0)? Answer| | | | Selected Answer:| ?????? \$360, 000|

Correct Answer:| ?????? \$360, 000| | | | * Question 67 1 out of 1 points | | |

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What is the operating cash flow one year from today ($t= 1$)? Answer| | | |

Selected Answer:| ??????\$96, 000| Correct Answer:| ??????\$96, 000| | | | *

Question 68 1 out of 1 points | | | What is the operating cash flow two years from today ($t= 2$)?

Answer| | | | Selected Answer:| ??????\$110, 400| Correct Answer:| ??????

\$110, 400| | | | * Question 69 1 out of 1 points | | | What is the operating cash flow three year from today ($t= 3$)? Answer| | | | Selected

Answer:| ??????\$95, 040| Correct Answer:| ??????\$95, 040| | | | * Question

70 1 out of 1 points | | | What is the operating cash flow four years from today ($t= 4$)? Answer| | | | Selected Answer:| ??????\$85, 824| Correct

Answer:| ??????\$85, 824| | | | * Question 71 1 out of 1 points | | | How much tax is the firm expected to pay when the asset is sold for \$60, 000 in year 5?

Answer| | | | Selected Answer:| ??????\$17, 088|

Correct Answer:| ??????\$17, 088| | | | * Question 72 1 out of 1 points | | |

What is the total cash flow five year from today ($t= 5$)? Answer| | | |

Selected Answer:| ??????\$188, 736| Correct Answer:| ??????\$188, 736| | | |

* Question 73 1 out of 1 points | | | What is the project's NPV? Answer| | | |

Selected Answer:| ??????\$43, 009| Correct Answer:| ??????\$43, 009| | | | *

Question 74 1 out of 1 points | | | For the next 2 questions suppose the following data holds: ?? You have been asked to evaluate two pollution

devices. The wet scrub costs \$500 to set up and \$100 per year to operate.

It must be completely replaced every 4 years, and it has no salvage value.

The dry scrub device costs \$800 to set up and \$75 per year to operate. It lasts for 5 years and has no salvage value. Assume the pollution control

equipment is replaced as it wears out, and the cost of capital is 12%. | What is the EAC of the wet scrub device? Answer| | | | Selected Answer:| ?????? \$264. 62| Correct Answer:| ??????\$264. 62| | | | * Question 75 1 out of 1 points | | | What is the EAC of the dry scrub device? Answer| | | | Selected Answer:| ??????\$296. 93| Correct Answer:| ??????\$296. 93| | | |