

Final exam mba 503 assignment



Final Exam The exam is an individual effort and should not be discussed with others. Send your completed exam to your assignment folder by the last day of class. The purpose of the exam is to demonstrate your understanding of both written and discussion materials presented in this course. If you have any questions concerning this exam, please send me an e-mail. I will remove your name and post the question and response in the main news group. The test is composed of 30 T/F questions worth 2 points each for a total of 60 points, 5 multiple choice worth 2 points each for a total of 10 points, two short answer questions worth 15 points each.

Good Luck! The following are True / False (T/F). Please answer with a T or an F. If you are not sure about a question and feel that it could be ambiguous, please put a brief explanation to justify your answer. Put your answer on the excel answer sheet, answers not submitted with your answer sheet will not be considered. You may do this on up to 2 T/F problems for partial credit, if you attempt to justify more than 2, I will not give you any credit for your justifications. Your justification must be supported by a reasonable position.)

The internet has had not impact on financial service firms such as Meryl Lynch and Morgan Stanley F 2) The Federal Reserve is governed by the presidents of the world's 10 largest banks. F 3) A sole proprietorship is taxed the same as a corporation or LLC. F 4) Working capital is the same as cash in the bank. F 5) Depreciation expense is a non-cash item. T 6) The book value and the market value of a stock are always the same number. F 7) The terms " merger," " consolidation," and " restructuring" all mean the same thing. F) The job of an auditor in a normal financial statement audit is to determine if there is any fraud present. F 9) Zero coupon bonds be issued by any type of

entity that has the ability to issue bonds. T 10) There are 13 significant ratios in financial accounting. F 11) There are no differences between tax and financial income. F 12) Extraordinary items are items that are both infrequent in occurrence and unusual in nature. T 13) Proforma financial statements are a very accurate gage of a businesses future income. F 14) The components of fixed and variable costs are typically the same items. F 15) If airlines sold paint, it would much cheaper than at Home Depot or Lowes. F 16) Break even analysis is a useful tool for both large and small businesses. T 17) Seasonal fluctuations can have a dramatic impact on working capital. T 18) Financial leverage is good to have in a business because the more debt, the better off financially a business is. F 19) An individual conducting a sole proprietorship files Schedule C of Form 1040, a partnership files Form 1065, a regular (C) corporation files Form 1120, and an S corporation files Form 1120S.

T 20) Tax incentives are the same in every state. F 21) The use of float is an illegal system to maximize cash balances. F 22) Under Check 21, the banks now clear checks must faster. T 23) The 5 Cs of credit are character, capital, capacity, conditions, and collateral. F 24) The average collection period is the A/R divided by the average daily credit sales. F 25) Just in Time inventory management was developed by Ford Motor Company. T 26) Cumulative voting rights allow you to skip an election and vote more than once in the next election. F 7) Poison Pills are effective means to reduce the likelihood of a hostile takeover. T 28) Cumulative preferred dividends are paid first after the bond holders and before any common stock dividends have been paid. T 29) In today's economic market, borrowing from a bank represents the

lowest cost of capital to an organization. T 30) The real rate of return calculation includes a component for current inflation. T Please select the best answer in each problem. If you are not sure about a question and feel that it could be ambiguous, please put a brief explanation to justify your answer.

Put your answer on the excel answer sheet, answers not submitted with your answer sheet will not be considered. You may do this on up to 2 problems for partial credit, if you attempt to justify more than 2, I will not give you any credit for your justifications. Your justification must be supported by a reasonable position. 31) Where would a manager invest excess cash on a short term basis? A a. A short term CD b. Money Market Account c. Federal Funds d. A Lockbox System 32) LIBOR is: D a. The same as the Prime Rate b. Tied to the banks in Europe c. Only valid for loans over 30 days . The London Interbank Offer Rate 33) The benefits of debt are: a. Interest is tax deductible b. Debt may be repaid in cheaper dollars due to inflation c. Debt may lower the cost of capital to a firm. d. All of the above 34) The formula for a bond yield is determined using which of the following components: A I. Annual Interest Payment II. Principal Payment III. Total Interest Payments IV. Present Value of bond a. I & II b. I & III c. II & IV d. III & IV 35) The correlation between an interest rate on a debt instrument and the level of security is: C a.

The higher interest rate, the greater level of security b. The lower interest rate, the lower level of security c. The lower interest rate, the higher level of security d. There is not a practical difference in the security levels and interest rates in most cases. Please answer the following Essay Questions.

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Include any relevant code sections necessary to support your answer.

36) Kim, the president of Fulmar Corporation and currently owns 10,000 shares of the 200,000 shares outstanding. The current price of the stock is \$100 per share. Fulmar needs to raise an additional \$1,500,000 in new funds.

Fulmar's income for 2005 was \$875,000 after taxes. Interest rates are currently at 10%. The controller and financial advisors are trying to determine the best method to raise the additional funds and believe that stock rights are the best option. But they are unsure of how much of a discount would be required and are contemplating discounts of 10%, 20% or 30%. a. For each level of discounting, determine the subscription price, number of shares to be issued and rights required to purchase one share. b. Compute the EPS before and after the rights with a 20% discount. . How many shares will Kim have after the rights offer if she participated and bought 2,000 new shares? Please show all computations to get full credit. Kim owns 10,000 shares of the 200,000 shares. Outstanding shares are 190,000. Current price of stock is \$100 per share. Total value of 10,000 shares is 10000×100 . Earnings after taxes for Fulmar are \$875,000. Interest rate is 10% To raise 1,500,000 at \$100 a share, Fulmar will have to issue 15,000 shares. Shares outstanding are 200,000 and 15,000 new ones will be offered the ratio of old to new is $200,000/15,000 = 13$.

So Kim may combine 13 shares plus \$80 to buy each share. Therefore Kim has $10,000/13 = 769$ shares at \$80 each = 61,520 dollars. a. At 10% discount the subscription price will be \$90. Number of shares to be issued $1.5 \text{ mill}/90 = 16667$. At 20% discount the subscription price will be \$80.

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Number of shares to be issued $1.5 \text{ mill} / 80 = 18750$. At 30% discount the subscription price will be \$70. Number of shares to be issued $1.5 \text{ mill} / 70 = 21429$. Rights required to purchase one share at: 10% = 12 (approximately), 20% = 10.67 (approximately) and 30% = 9.33 (approximately). b. Earnings per share before 20% discount: 1000 old shares at \$100 = 200,000. 1 new share at \$80 = \$80 Total value of 2001 share is 200,080. EPS is 99.99. The subscriber will be able to buy a stock that is worth \$99.99 at \$80. The differential is \$19.99. c. Kim will have 769 shares bought at \$80 and 1231 shares bought at \$100. Value of right $1.429 \times 1231 \times 100 = 123100$. $769 \times 80 = 61520$. $769 \times 100 = 76900$ $123100 + 76900 + 1000000 = 1200000 / 12000 = 100$ $123100 + 61520 + 1000000 = 1184620 / 1200000 - 1184620 = 15380 / 12000 = 1.282$ (Earnings per share). 37) Prepare a cash flow statement for Collins Consulting based on the following numbers:

Sales	550,000	CGS	125,000
Gross Profit	425,000	Selling & Admin Exp	25,000
Depreciation Exp	150,000	Operating Income	250,000
Interest Expense	10,000	Earnings Before Taxes	240,000
Taxes	80,000	Preferred Dividends	10,000
Shares Outstanding	120,000	EPS	\$1.5
Retained Earnings		BOY Balance	500,000
Earnings	150,000	Div Declared & Paid CY	50,000
RE Balance EOY	600,000	Balance Sheet	
Cash	70,000	BOY	100,000
A/R	300,000	EOY	100,000
Inventory	410,000	Cash	70,000
Prepaid Expenses	50,000	A/R	300,000
Total Current Assets	830,000	Inventory	410,000
Property	2,000,000	Prepaid Expenses	50,000
Accum Depr	1,000,000	Total Current Assets	830,000
Total Assets	1,910,000	Property	2,000,000
A/P	250,000	Accum Depr	1,000,000
Bonds Payable	70,000	Total Assets	1,910,000
Total Liabilities	790,000	A/P	250,000
		Bonds Payable	70,000
		Total Liabilities	790,000

| Pref Stock | 90, 000 | 90, 000 | | Common Stock | 120, 000 | 120, 000 | |
 APIC (Additional Paid in Capital) | 410, 000 | 410, 000 | | Total SH Equity | 1,
 120, 000 | 1, 220, 000 | | Total Liab & SH Equity | 1, 910, 000 | 2, 230, 000 |

Collins consulting company Statement of cash flows Cash flows from
 operating expenses: Net income (earnings after taxes)\$160, 000 [240, 000
 (EBT) - 80, 000 (T)]

Adjustments to determine cash flow from operating activities: Add back
 depreciation(\$50, 000) Increase in accounts receivable(\$50, 000) [350, 000
 (EOY)-300, 000(BOY)] Increase in inventory(\$20, 000) [430, 000 (EOY) - 410,
 000(BOY)] Decrease in prepaid expenses\$20, 000 [50, 000 - \$30, 000]
 Increase in accounts payable\$190, 000 [440, 000(EOY)-250, 000(BOY)]
 Decrease in accrued expenses\$(20, 000) [70, 000(BOY)-50, 000(EOY)] Total
 adjustments\$270, 000 ————— Net cash flows from operating
 activities\$430, 000 [160, 000+270, 000] Cash flows from investing activities:
 *Increase in investments (long-term)\$110, 000 [80, 000-(-30000)] Increase in
 property(\$400, 000) [2, 400, 000-2, 000, 000]

Net cash flow from investing activities(\$290, 000) Cash flows from financing
 activities: Increase in bonds payable\$50, 000 [120, 000-70, 000] Preferred
 stock dividends paid(\$10, 000) Common stock dividends paid(\$50, 000) Net
 cash flows from financing activities(\$10, 000) ————— Net increase in
 cash flows\$130, 000 (430000-290000-10000) Note: *the increase in
 investments was calculated from the difference of the Total assets (actual)
 versus total assets (stated) in the problem. Example, the total assets is
 stated as \$1, 910, 000 for BOY whereas the actual calculated value is \$1,
 830, 000. The difference of \$80, 000 comes from the long term investment.

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