***True/False: Write “T’ if the statement is true and “F” is the statement is false.***

1. The focus of DuPont analysis is to provide management information as to how the firm is using its resources to maximize returns on owners’ investments.
2. The financial manager should examine available risk-return trade-offs and make his decision based upon the greatest expected return.
3. When fixed expenses increase relative to sales, it indicates that there is not enough productive capacity to absorb an increase in sales.
4. We can use the present value of an annuity formula to calculate constant annual loan payments.
5. Working capital for a project includes investment in fixed assets.
6. Capital structure represents the mix of long-term sources of funds used by a firm.
7. Corporate profits play a part in the choice firms make between using internal versus external capital.
8. Business risk refers to the relative dispersion of the firm’s earnings available to common stockholders.
9. The hedging principle involves matching the cash flow from an asset with the cash flow requirements of the financing used.
10. Accounts receivable are an asset that reflects sales made on credit.

***Multiple Choice: Choose the one alternative that best completes the statement or answers the question)***

1. If you were given the components of current assets and of current liabilities, what ratio (s) could you compute?
   1. Quick ratio
   2. Average collection period
   3. Current ratio
   4. Both a and c
   5. All of the above
2. Purchases of plant and equipment can be determined from the:
   1. current cash budget
   2. previous period’s balance sheet
   3. pro forma income statement
   4. use of ratio analysis
3. An increase in \_\_\_\_\_\_\_\_\_ would increase the weighted average cost of capital.
   1. flotation costs
   2. projected dividends
   3. the tax rate
   4. both a and c
   5. all of the above
4. Financial intermediaries:

a. offer indirect securities

1. include insurance companies
2. usually are underwriting syndicates
3. both a and b
4. all of the above
5. Which of the following is considered a source of spontaneous financing?
   1. Trade credit
   2. Inventories
   3. Accounts payable
   4. Both a and c

***Multiple Choice: Choose the one alternative that best completes the statement or answers the question.***

1. Your firm is trying to determine its cash disbursements for the next two months (June and July). In any month, the firm makes purchases of 60% of that month’s sales, which are paid the following month. In addition, the firm incurs the following costs every month and pays for them in the month the expenses are incurred: wages and salaries of $10,000, rent of $4,000, and miscellaneous cash expenses of $1,000. Depreciation amortized on a monthly basis is $2,000. June’s sales are expectedto be $100,000, and July’s sales are expected to be $150,000. Cash disbursements for the month of July are expected to be:
   1. $105,000
   2. $107,000
   3. $77,000
   4. $75,000
2. Regal Enterprises is considering the purchase of a new embroidering machine. It is expected to generate additional sales of $400,000 per year. The machine will cost $295,000, plus $3,000 to install it. The embroider will save $12,000 in labor expenses each year. Regal is in the 34% income tax bracket. The machine will be depreciated on a straight-line basis over five years (it has no salvage value). The embroiderer will require annual operating expenses of $136,000. What is the annual operating cash flow that the machine will generate?
   1. $316,954
   2. $124,000
   3. $202,424
   4. $165,816
3. Based on the information in Table 1, which is the contribution margin?

Table 1

Average selling price per unit $16.00

Variable cost per unit $12.00

Units Sold 200,000

Fixed costs $800,000

Interest expense $50,000

1. $5.00
2. $4.00
3. $3.00
4. $2.00
5. Smart and Smiley Incorporated has an average collection period of 74 days. What is the accounts receivable turnover ratio for Smart and Smiley? You may use a 360-day year.
   1. 4.86
   2. 2.47
   3. 2.66
   4. 1.68
6. Use the following information to answer the questions. As of December 31, Budget, Inc. had a cash balance of $50,000. December sales were $150,000 and are expected to be $100,000 in January. 20% of sales in any month are cash sales, and 80% of sales are collected during the following month. In January, Budget is expected to have total cash disbursements of $120,000, and Budget requires a minimum of cash balance of $50,000. Budget’s expected cash receipts for January are:
   1. $80,000
   2. $100,000
   3. $110,000
   4. $140,000
7. The present value of $1,000 to be received at the end of five years, if the discount rate is 10%, is:
   1. $621
   2. $784
   3. $614
   4. $500
8. ZZZ Corp. ended the day with a cleared balance in its bank account of $7,000. The company deposited $50,000 in checks received from customers the next day. It wrote checks to its suppliers the same day that totaled $20,000. If $14,000 of the firm’s deposited checks have cleared by the end of the third day but only $8,000 of its checks to suppliers have cleared, what is its “float”?
   1. $14,000
   2. $28,000
   3. $36,000
   4. $41,000

***Problems:***

23. Table 1

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| Hokie Corporation Comparative Balance Sheet | | | |
| For the Years Ending March 31, 1995 and 1996 | | | |
|  | (Millions of Dollars) |  |  |
|  |  |  |  |
| *Assets* |  | 1995 | 1996 |
| Current assets: | |  |  |
| Cash |  | $2.00 | $10 |
| Accounts Receivable | | 16 | 10 |
| Inventory |  | 22 | 26 |
| Total current assets | | $40 | $46 |
| Gross fixed assets | | $120 | $124 |
| Less accumulated depreciation | | 60 | 64 |
| Net fixed assets | | 60 | 60 |
| Total assets | | $100 | $106 |
| *Liabilities and Owners' Equity* | |  |  |
| Current liabilities: | |  |  |
| Accounts payable | | $16 | $18 |
| Notes payable | | 10 | 10 |
| Total current liabilities | | $26 | $28 |
| Long-term debt | | 20 | 18 |
| Owners' equity | |  |  |
| Common stock | | 40 | 40 |
| Retained earnings | | 14 | 20 |
| Total liabilities and owners' equity | | $100 | $106 |
|  |  |  |  |

Hokie had net income of $26 million for 1996 and paid total cash dividends of $20 million to their common stockholders.

Calculate the following financial ratios for the Hokie Corporation using the information given in Table 1 and 1996 information.

1. current ratio
2. acid-test ratio
3. debt ratio
4. long-term debt to total capitalization
5. return on total assets
6. return on common equity

24. The following is an analytical income statement for the Swill & Spoon, a fine dining establishment:

|  |  |
| --- | --- |
| Sales | $150,000 |
| Variable costs | 90,000 |
| Revenue before fixed costs | $60,000 |
| Fixed costs | 35,000 |
| EBIT | $25,000 |
| Interest expenses | $10,000 |
| Earning before taxes | $15,000 |
| Taxes (.34) | 5,100 |
| Net income | 9,900 |

1. Calculate the degree of operating leverage at this output level.
2. Calculate the degree of financial leverage at this level of EBIT
3. What is the degree of combined leverage?