A. MULTIPLE CHOICE QUESTIONS (46%)

Broomall Corporation has decided to include certain financial ratios in its year-end annual report to shareholders. Selected information relating to its most recent fiscal year is provided below.

• Cash	$10,000
• Accounts receivable	20,000
• Prepaid expenses	8,000
• Inventory	30,000
• Available-for-sale securities	
-At cost	9,000
-Fair value at year end	12,000
• Accounts payable	15,000
• Notes payable (due in 90 days)	25,000
• Bonds payable (due in 10 years)	35,000
• Net credit sales for year	220,000
• Cost of goods sold	140,000

1. Broomall's working capital at year end is:

A. $40,000.
B. $37,000.
C. $28,000.
D. $10,000.

2. All of the following are affected when merchandise is purchased on credit except

A. total current assets.
B. net working capital.
C. total current liabilities.
D. current ratio.

Shown below are beginning and ending balances for certain of Grimaldi Inc.'s accounts.

	January 1	December 31
Cash	$ 48,000	$ 62,000
Marketable securities	42,000	35,000
Accounts receivable	68,000	47,000
Inventory	125,000	138,000
Plant & equipment	325,000	424,000
Accounts payable	32,000	84,000
Accrued liabilities	14,000	11,000
7% bonds payable	95,000	77,000

3. Grimaldi's acid test ratio or quick ratio at the end of the year is:

A. 0.83.
B. 1.02.
C. 1.15.
D. 1.52.

A summary of the Income Statement of Sahara Company is shown below.

Sales	$15,000,000
Cost of sales	9,000,000
Operating expenses	3,000,000
Interest expense	800,000
Taxes	880,000
Net income	$ 1,320,000

4. Based on the above information, Sahara's degree of financial leverage is

A. 0.96.
B. 1.36.
C. 1.61.
D. 2.27.

The following information has been derived from the financial statements of Boutwell Company.

Current assets	$640,000
Total assets	990,000
Long-term liabilities	130,000
Current ratio	3.2 Times

5. The company's debt-to-equity ratio is

A. 0.50 to 1.
B. 0.37 to 1.
C. 0.33 to 1.
D. 0.13 to 1.

Lowell Corporation has decided to include certain financial ratios in its year-end annual report to shareholders. Selected information relating to its most recent fiscal year is provided below.

• Cash	$ 10,000
• Accounts receivable (end of year)	20,000
• Accounts receivable (beginning of year)	24,000
• Inventory (end of year)	30,000
• Inventory (beginning of year)	26,000
• Notes payable (due in 90 days)	25,000
• Bonds payable (due in 10 years)	35,000
• Net credit sales for year	220,000
• Cost of goods sold	140,000

6. Using a 365-day year, compute Lowell's accounts receivable turnover in days.

A. 26.1 days.
B. 33.2 days.
C. 36.5 days.
D. 39.8 days.

7. A company interested in mitigating the risk of foreign exchange losses on sales in a foreign currency can take which of the following actions?

A. Purchase options to sell foreign currency for local currency at a predetermined rate.
B. Purchase options to buy foreign currency for local currency at a predetermined rate.
C. Expand sales denominated in foreign currencies.
D. Offer a discount for early payment of accounts receivable.

8. Which of the following actions would a more risk averse management team likely take?

A. Purchasing forward contracts to lock in a certain amount of local currency in exchange for foreign currency to be received from sales in a foreign country.
B. Renegotiating an equipment lease under which the company's lease payment is based on monthly sales to a new contract in which the company would make a fixed monthly payment regardless of sales.
C. Reducing standards to grant credit to customers.
D. Moving a manufacturing facility next to a river.

9. Which of the following is an action that will increase financial risk?

A. Not updating anti-virus software.
B. Borrowing money and using the cash to pay a large dividend.
C. Eliminating dividends to conserve cash.
D. Reducing sales commissions and increasing salaries paid to the sales staff.

Use the following to answer numbers 10 to 14
The following data are given for Alright Aluminum Company:

Initial cost of proposed equipment	$75,000
Estimated useful life	7 years
Estimated annual savings in cash operating expenses	$18,000
Predicted residual value at the end of the useful life	$ 3,000
Cost of capital	12%
PV factor of an annuity of $1 at 12%	4.564
PV factor of $1 at year 8	0.452

10. The payback period is:

A. 4.167 years
B. 4.254 years
C. 5.348 years
D. 5.741 years

11. Present value of estimated annual savings in cash operating expenses is:

A. $81,485
B. $81,824
C. $82,125
D. $82,152

12. Present value of predicted residual value at the end of the useful life is:

A. $1,113
B. $1,263
C. $1,302
D. $1,356

13. Total present value (PV) of estimated cash flows is:

A. $83,508
B. $83,591
C. $83,614
D. $83,748

14. Net present value (NPV) of estimated cash flows is:

A. $8.350
B. $8.402
C. $8.479
D. $8.508

Use the following to answer numbers 15 and 16
The Anderson Company has recently purchased a plant to manufacture a new product. The following data pertain to the new operation:

Estimated annual sales 3,500 units at$20
Estimated costs:
Direct materials $6.00/unit
Direct labor $1.00/unit
Factory overhead (all fixed) .... $12,000 per year
Selling Expenses .... 30% of sales
Administrative expenses .... $16,000 per year

15. The break-even point in dollars is:

A. $77,000
B. $78,000
C. $79,000
D. $80,000

16. What is the selling price if the profit per unit is $2.04?

A. $24.24
B. $24.34
C. $26.24
D. $26.34

Use the following to answer numbers 17 to 20
The following information is given for the Vendor Company:
Fixed costs................................... $30,000 per period
Variable cost................................ $5/unit
Selling price................................ $8/unit

17. The margin of safety at the 12,000 unit-level is:
A. 16.7%
B. 16.9%
C. 17.1%
D. 17.3%

18. What is the net income when the sales are $120,000?
A. $13,500
B. $14,000
C. $14,500
D. $15,000

19. The sales in units which is required to achieve a net income of 10% of sales is:
A. 13,384
B. 13,445
C. 13, 563
D. 13,636

20. What is the break-even in units if variable costs are increased by $1 per unit and the total fixed costs are decreased by $5,000?
A. 12,500
B. 12,700
C. 12,900
D. 13,100

21. What type of ratios best measure the short-term ability of the enterprise to pay its maturing obligations and to meet unexpected needs for cash?
A. Leverage
B. Solvency
C. Profitability
D. Liquidity

Use the following information for questions 22 and 23:
Moon Beam, Inc. has the following income statement (in millions):

MOON BEAM, INC.
Income Statement
For the Year Ended December 31,

	2008	2007
Net Sales	$180	$150
Cost of Goods Sold	120	100
Gross Profit	60	50
Operating Expenses	33	60
Net Income	$ 27	(10)

22. Using vertical analysis, what percentage is assigned to Cost of Goods Sold for 2008?

A. 67%
B. 33%
C. 100%
D. None of the above

23. Using vertical analysis, what percentage is assigned to Net Income for 2008?

A. 100%
B. 85%
C. 15%
D. None of the above

B. PROBLEM SOLVING

Problem # 1 (8%)

A company wants to evaluate the purchase of a new machine.

- The machine costs $48,000 plus $2,000 in shipping and installation charges.
- Purchase of the machine would require an increase in net working capital of $5,000.
- The company depreciates this asset according to a Modified Acceleration Cost Recovery System (MACRS) depreciation schedule for a five-year asset (Year 1=0.20, Year 2=0.32, Year 3=0.192, Year 4=0.1152, Year 5=0.1152, Year 6=0.0576).
- The company expects that the machine would increase its before-tax revenues by $30,000 a year, but would also increase operating costs by $10,000 a year.
- The company expects to sell the machine after 5 years for $8,000.
- The firm's tax rate is $40%.

What is the incremental after-tax cash flow at disposal in Year 5?

Problem # 2 (20%)

Safety Corporation's financial statements appear below:

Safety Corporation Balance Sheet December 31, N		
Assets:		
Current Assets		
Cash	$100,000	
Marketable Securities	200,000	
Inventory	300,000	
Total Current Assets		$ 600,000
Noncurrent Assets		
Fixed Assets		500,000
Total Assets		$1,100,000
Liabilities and Stockholders' Equity:		
Current liabilities	$200,000	
Long-Term liabilities	100,000	
Total liabilities		$ 300,000
Stockholders' Equity		
Common stock, $1 par value, 100,000 shares	$100,000	
Preferred Stock	50,000	
Premium on Common Stock	500,000	
Retained Earnings	150,000	
Total Stockholders' Equity		800,000
Total Liabilities and Stockholders' Equity		$1,100,000

Safety Corporation Income Statement For the year Ended December 31, N	
Net Sales	$10,000,000
Cost of Goods Sold	6,000,000
Gross Profit	$ 4,000,000
Operating Expenses	1,000,000
Income before Taxes	$ 3,000,000
Income Taxes (50% rate)	1,500,000
Net Income	$ 1,500,000

Additional information available is a market price of $150 per share of common stock and total dividends of $600,000 for common shareholders for the year 'N', and $250,000 of inventory as of December 31, 'N – 1'.

Required:

Compute the following ratios:

(a) Current ratio
(b) Quick ratio
(c) Inventory turnover

(d) Average age of inventory (Days sales in Inventory)
(e) Debt-equity ratio
(f) Earnings per share (EPS)
(g) Common Dividends per share (DPS)
(h) Common Dividend payout ratio (DPR)

Problem # 3 (8%)

Nader Products is using cost-based pricing to determine the selling price for its new product based on the next information.

Annual volume	25,000 units
Fixed costs	$700,000 per year
Variable costs	$200 per unit
Plant investment	$3,000,000
Working capital	$1,000,000
Effective tax rate	40%

Required:

Calculate the target price that Nader needs to set for the new product to achieve a 15% after-tax return on investment (ROI)

Problem # 4 (10%)

An enterprise presented at year-end N the following information:

Sales	$1,200,000
Variable cost per unit	40% of the sale price
Quantity sold	80,000 units
Result – profit	$2.25 for every unit sold

Required:

1. Calculate the break-even point in quantity and value.
2. Calculate the date of breakeven point assuming that sales are equally distributed over the months of the years.

Problem # 5 (8%)

Suppose Nota Co. can issue stock for $50 per share, before $5 from flotation costs. The dividend at the end of the first year is expected to be $3.50 per share, and future dividends are expected to grow at 5% per year. Calculate the estimated cost of new equity capital.

Good Work!!