

SMN 224 Corporate Finance

Tutorial assignment for Topic 1

(Based on HRWJJ Chapter 1 and A Reminder of Financial Statement)

1. Capital structure decisions include consideration of the:
 - (I.) amount of long-term debt to assume.
 - (II.) cost of acquiring funds.
 - (III.) current assets and liabilities.
 - (IV.) net working capital.
 - A. I and II only
 - B. II and III only
 - C. III and IV only
 - D. I, II, and IV only
 - E. I, III, and IV only

2. Which one of the following is a capital budgeting decision?
 - A. determining how much debt should be borrowed from a particular lender
 - B. deciding whether or not to open a new store
 - C. deciding when to repay a long-term debt
 - D. determining how much inventory to keep on hand
 - E. determining how much money should be kept in the checking account

3. Working capital management includes decisions concerning which of the following?
 - (I.) accounts payable
 - (II.) long-term debt
 - (III.) accounts receivable
 - (IV.) inventory
 - A. I and II only
 - B. I and III only
 - C. II and IV only
 - D. I, II, and III only
 - E. I, III, and IV only

4. Which of the following are advantages of the corporate form of business ownership?
- (I.) limited liability for firm debt
 - (II.) double taxation
 - (III.) ability to raise capital
 - (IV.) unlimited firm life
- A. I and II only
B. III and IV only
C. I, II, and III only
D. II, III, and IV only
E. I, III, and IV only
5. Which one of the following actions by a financial manager creates an agency problem?
- A. refusing to borrow money when doing so will create losses for the firm
 - B. refusing to lower selling prices if doing so will reduce the net profits
 - C. agreeing to expand the company at the expense of stockholders' value
 - D. agreeing to pay bonuses based on the market value of the company stock
 - E. increasing current costs in order to increase the market value of the stockholders' equity
6. _____ refers to the cash flow that results from the firm's ongoing, normal business activities.
- A. Cash flow from operating activities
 - B. Capital spending
 - C. Net working capital
 - D. Cash flow from assets
 - E. Cash flow to creditors
7. _____ refers to the firm's dividend payments less any net new equity raised.
- A. Operating cash flow
 - B. Capital spending
 - C. Net working capital
 - D. Cash flow from creditors
 - E. Cash flow to stockholders
8. Which of the following are included in current assets?
- (I) equipment
 - (II) inventory
 - (III) accounts payable
 - (IV) cash
- A. II and IV only
B. I and III only
C. I, II, and IV only
D. III and IV only
E. II, III, and IV only

9. Which of the following are included in current liabilities?
- (I) note payable to a supplier in eighteen months
 - (II) debt payable to a mortgage company in nine months
 - (III) accounts payable to suppliers
 - (IV) loan payable to the bank in fourteen months
- A. I and III only
 - B. II and III only
 - C. III and IV only
 - D. II, III, and IV only
 - E. I, II, and III only
10. Which one of the following statements concerning liquidity is correct?
- A. If you sold an asset today, it is a liquid asset.
 - B. If you can sell an asset next year at a price equal to its actual value, the asset is highly liquid.
 - C. Trademarks and patents are highly liquid.
 - D. The less liquidity a firm has, the lower the probability the firm will encounter financial difficulties.
 - E. Balance sheet accounts are listed in order of decreasing liquidity.
11. Which of the following accounts are included in shareholders' equity?
- (I) interest paid
 - (II) retained earnings
 - (III) capital surplus
 - (IV) long-term debt
- A. I and II only
 - B. II and IV only
 - C. I and IV only
 - D. II and III only
 - E. I and III only
12. Book value:
- A. is equivalent to market value for firms with fixed assets.
 - B. is based on historical cost.
 - C. generally tends to exceed market value when fixed assets are included.
 - D. is more of a financial than an accounting valuation.
 - E. is adjusted to market value whenever the market value exceeds the stated book value.
13. When you are making a financial decision, the most relevant tax rate is the _____ rate.
- A. average
 - B. fixed
 - C. marginal
 - D. total
 - E. variable

14. The cash flow to creditors includes the cash:
- A. received by the firm when payments are paid to suppliers.
 - B. outflow of the firm when new debt is acquired.
 - C. outflow when interest is paid on outstanding debt.
 - D. inflow when accounts payable decreases.
 - E. received when long-term debt is paid off.
15. Net capital spending is equal to:
- A. net additions to net working capital.
 - B. the net change in fixed assets.
 - C. net income plus depreciation.
 - D. total cash flow to stockholders less interest and dividends paid.
 - E. the change in total assets.
16. Free cash flow is:
- A. without cost to the firm.
 - B. net income plus taxes.
 - C. an increase in net working capital.
 - D. cash that the firm is free to distribute to creditors and stockholders.
 - E. None of the above.
17. A firm has £300 in inventory, £600 in fixed assets, £200 in accounts receivables, £100 in accounts payable, and £50 in cash. What is the amount of the current assets?
- A. £500
 - B. £550
 - C. £600
 - D. £1,150
 - E. £1,200
18. The total assets are £900, the fixed assets are £600, long-term debt is £500, and short-term debt is £200. What is the amount of net working capital?
- A. £0
 - B. £100
 - C. £200
 - D. £300
 - E. £400
19. At the beginning of the year, a firm has current assets of £380 and current liabilities of £210. At the end of the year, the current assets are £410 and the current liabilities are £250. What is the change in net working capital?
- A. -£30
 - B. -£10
 - C. £0
 - D. £10
 - E. £30

20. Calculate net income based on the following information. Sales are £250, cost of goods sold is £160, depreciation expense is £35, interest paid is £20, and the tax rate is 34%.
- A. £11.90
 B. £23.10
 C. £35.00
 D. £36.30
 E. £46.20
21. Use the above accounting information from the financial statements prepared by Greenbacks Ltd to calculate the change in the net working capital from 2014 to 2015. What are the amount of the non-cash expenses, net capital spending, net new borrowing, operating cash flow, cash flow of the firm, and cash flow to creditors for 2015?

Greenbacks, Ltd.
 2015 Income Statement
 (£ in millions)

Net sales		£9,610
Less: Cost of goods sold		6,310
Less: Depreciation		<u>1,370</u>
Earnings before interest and taxes		1,930
Less: Interest paid		<u>630</u>
Taxable Income		£1,300
Less: Taxes		<u>455</u>
Net income		<u>£ 845</u>

Greenbacks, Ltd.
 2014 and 2015 Balance Sheets
 (£ in millions)

	<u>2014</u>	<u>2015</u>		<u>2014</u>	<u>2015</u>
Cash	£310	£405	Accounts payable	£ 2,720	£ 2,570
Accounts rec.	2,640	3,055	Notes payable	<u>100</u>	<u>0</u>
Inventory	<u>3,275</u>	<u>3,850</u>	Total	<u>£ 2,820</u>	<u>£ 2,570</u>
Total	<u>£ 6,225</u>	<u>£ 7,310</u>	Long-term debt	7,875	8,100
Net fixed assets	<u>10,960</u>	<u>10,670</u>	Common stock	5,000	5,250
			Retained earnings	<u>1,490</u>	<u>2,060</u>
Total assets	<u>£17,185</u>	<u>£17,980</u>	Total liab.& equity	<u>£17,185</u>	<u>£17,980</u>

22. Discussion Question: Find, in this week's news, examples of (i) capital budgeting decisions; (ii) capital structure decisions and (iii) net working capital decisions. Explain these decisions from what you gathered in the news.