

Course Title: Financial Management
Date: 07 / 01 /2014
No. of Questions: (5)
Time: 2 hours
Using Calculator (Yes)

University of Palestine



Incomplete Exam.
Total Grade: 60

Instructor Name: Yousef El-Mudallal
Student No.: _____
Student Name: _____
Dep. / Specialist: _____
Using Dictionary (No)

Answer the following five questions:

Q.1: True or False

10 marks

- 1- If the discount (or interest) rate is positive, the present value of an expected series of payments will always exceed the future value of the same series ().
- 2- If a bank uses quarterly compounding for savings accounts, the nominal rate will be greater than the effective annual rate ()
- 3- One of the potential benefits of investing early for retirement is that an investor can receive greater benefits from the compounding of interest ().
- 4- A decline in the inventory turnover ratio suggests that the firm's liquidity position is improving ().
- 5- Classified stock is one tool companies can use to meet special needs such as when owners of a start-up firm need capital but don't want to relinquish control of the firm ().
- 6- The OTC market is a physical exchange, much like the Palestine Exchange, where securities dealers provide trading in unlisted securities ().
- 7- If a bond's yield to maturity exceeds its annual coupon, then the bond will be trading at a premium ()
- 8- For bonds, price sensitivity to a given change in interest rates generally decreases as years remaining to maturity decreases ().
- 9- Since ROA measures the firm's effective utilization of assets, two firms with the same EBIT must have the same ROA ().
- 10- When stock in a closely held corporation is offered to the public for the first time the transaction is called "going public" and the market for such stock is called the new issue market ().

Q.2: Choose the correct answer

10 marks

- 1- The asset management ratios measure:-
 - a. The extent to which a firm uses debt financing
 - b. How effectively the firm is managing its assets
 - c. How much investors are willing to pay per dollar of reported profits.
 - d. The combined effects of liquidity, asset management, and debt on operating results.
- 2- All Information bellow are correct about the ordinary annuity except :
 - a. A series of equal cash flows.
 - b. Occurring over equal intervals
 - c. It has its payments at the end of each period.
 - d. It has its payments at the beginning of each period.
- 3- If the current ratio = 2, and if current liabilities = \$200 million, then current assets equal:
 - a. \$400 million.
 - b. \$200 million.
 - c. \$100 million.
 - d. \$50 million.

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- 4- A firm has \$30,000 of inventory. If this represents 30 days' sales, what is the inventory turnover ratio?
- 12
 - 10
 - 7.2
 - 30
- 5- You deposit \$1,000 in a savings account that pays 9 percent interest, compounded annually. How much will your account be worth in 6 years?
- \$1,054.00
 - \$1,199.00
 - \$1,677.10
 - \$1,689.48

Q.3: Answer the following questions

16 marks

- 1- Define the following terms :
- Investment Funds
 - The Preemptive Right for existent Common Stockholders
 - Strong-form of Efficient Market Hypothesis
- 2- Taussig Technologies Corporation (TTC) has been growing at a rate of 20% per year in recent years. This same supernormal growth rate is expected to last for another 2 years ($g_1 = g_2 = 20\%$) and after that the growth rate g_L will be constant at 6%.
- If $D_0 = \$1.60$, $r_s = 10\%$, and $g_L = 6\%$, then what is TTC's stock worth today?
 - What is its expected dividend yield and its capital gains yield at this time?

Q.4: Mini case: Answer the following question

24 marks

You were recently hired by East Coast Yachts to assist the company with its short-term financial planning and also to evaluate the company's financial performance, you have provided the following financial statements.

Income Statement for Year Ended December 31, 2012

Sales	\$128,700,000
Cost of goods sold	90,700,000
Other expenses	15,380,000
Depreciation	4,200,000
Earnings before interest and taxes (EBIT)	\$ 18,420,000
Interest	2,315,000
Taxable income	\$ 16,105,000
Taxes (40%)	6,442,000
<u>Net income</u>	<u>\$ 9,663,000</u>
Dividends	\$5,797,800
Addition to retained earnings	3,865,200

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East Coast Yachts Balance Sheet as of December 31, 2012

Assets		Liabilities & Equity	
Current assets		Current liabilities	
Cash	\$ 2,340,000	Accounts payable	\$ 4,970,000
Accounts receivable	4,210,000	Notes payable	10,060,000
Inventory	4,720,000	Total	\$15,030,000
Total	\$11,270,000	Long-term debt	\$25,950,000
Fixed assets		Shareholders' equity	
Net plant and equipment	\$72,280,000	Common stock	\$ 4,000,000
		Retained earnings	38,570,000
		Total equity	\$42,570,000
Total assets	\$83,550,000	Total liabilities and equity	\$83,550,000

- East Coast Yachts has 4 million outstanding stocks and the price of the stock in the exchange market amounted to 16\$.

You have gathered the industry ratios for the yacht manufacturing industry.

	Ratio	Industry	yacht
1.	Current ratio	1.2	-----
2.	Quick ratio	0.3	-----
3.	Total asset turnover	1.1	-----
4.	Inventory turnover	12	-----
5.	Debt ratio	0.5	-----
6.	Equity multiplier	2.2	-----
7.	Interest coverage ratio (TIE)	8	-----
8.	Profit margin	6%	-----
9.	Return on assets	14%	-----
10.	Return on equity	20%	-----
11.	Basic Earning Power (BEP)	20%	-----
12.	Earnings per share	\$2.2	-----
13.	Cash flow per share	\$3	-----
14.	price/earnings (P/E) ratio	6	-----
15.	price/cash flow ratio	5	-----

You are required to help Dan to answer the followings:

1. Calculate all of the ratios listed in the industry table for East Coast Yachts.
2. Compare the performance of East Coast Yachts to the industry as a whole.
3. Use the extended Du Pont equation to provide a summary and overview of yacht's financial conditions.

Bonus 3 marks

4. What are some potential problems and limitations of financial ratio analysis?