Course Title: ACC 2304, MAN 3304 Advanced Financial Management Date: 6/ 1 / 2014 (01:30 - 03:30) No. of Questions: 4 Questions Time: 2 hours	University of Palestine Final Exam First semester 2013/2014 Total Grade: 100	Instructor Name: Mohammed Bahloul Student No.: ________________ Student Name: ______________ College Name: Business Dep. / Specialist: _____________

First Question	Multiple Choice	30 Points

1. Which of the following statements best describes what would be expected to happen as you randomly add stocks to your portfolio?

   a. Adding more stocks to your portfolio reduces the portfolio's company-specific risk.
   b. Adding more stocks to your portfolio reduces the beta of your portfolio.
   c. Adding more stocks to your portfolio increases the portfolio's expected return.
   d. Statements a and c are correct.
   e. All of the statements above are correct.

2. Which of the following is not considered a capital component for the purpose of calculating the weighted average cost of capital (WACC) as it applies to capital budgeting?

   a. Long-term debt.
   b. Common stock.
   c. Accounts payable and accruals.
   d. Preferred stock.

3. Which of the following statements is most correct?

   a. The WACC measures the after-tax cost of capital.
   b. The WACC measures the marginal cost of capital.
   c. There is no cost associated with using retained earnings.
   d. Statements a and b are correct.
   e. All of the statements above are correct.

4. Which of the following statements is most correct?

   a. The WACC is a measure of the before-tax cost of capital.
   b. Typically the after-tax cost of debt financing exceeds the after-tax cost of equity financing.
   c. The WACC measures the marginal after-tax cost of capital.
   d. Statements a and b are correct.
   e. Statements b and c are correct.

5. A major disadvantage of the payback period is that it

   a. Is useless as a risk indicator.
   b. Ignores cash flows beyond the payback period.
   c. Does not directly account for the time value of money.
   d. Statements b and c are correct.
   e. All of the statements above are correct.

6. In the real world, we find that dividends

a. Usually exhibit greater stability than earnings.
b. Fluctuate more widely than earnings.
c. Tend to be a lower percentage of earnings for mature firms.
d. Are usually changed every year to reflect earnings changes.
e. Are usually set as a fixed percentage of earnings.

7. A decrease in a firm’s willingness to pay dividends is likely to result from an increase in its

a. Earnings stability.
b. Access to capital markets.
c. Profitable investment opportunities.
d. Collection of accounts receivable.
e. Stock price.

8. Which of the following would not have an influence on the optimal dividend policy?

a. The possibility of accelerating or delaying investment projects.
b. A strong shareholders’ preference for current income versus capital gains.
c. Bond indenture constraints.
d. The costs associated with selling new common stock.
e. All of the statements above can have an effect on dividend policy.

9. If a firm adheres strictly to the residual dividend policy, a sale of new common stock by the company would suggest that

a. The dividend payout ratio has remained constant.
b. The dividend payout ratio is increasing.
c. No dividends were paid for the year.
d. The dividend payout ratio is decreasing.
e. The dollar amount of investments has decreased.

10. Other things held constant, which of the following will cause an increase in working capital?

a. Cash is used to buy marketable securities.
b. A cash dividend is declared and paid.
c. Merchandise is sold at a profit, but the sale is on credit.
d. Long-term bonds are retired with the proceeds of a preferred stock issue.
e. Missing inventory is written off against retained earnings.

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Second Question	Answer the following Questions	32 Points

1. What sources of long-term capital do firms use?

2. Why is there a cost for retained earnings?

3. What are the three types of project risk?

4. What is the difference between independent and mutually exclusive projects?

5. What is the difference between normal and nonnormal cash flow streams?

6. Explain why some investors prefer capital gains?

7. What are the three Working capital financing policies?

8. List the advantages and disadvantages of using short-term financing?

Third Question	**Define each of the following**	**16 Points**

1. Risk Aversion

2. Diversifiable risk

3. Flotation Cost

4. Clientele Effect

Fourth Question	**22 Points**

1. Measuring Stand-Alone Risk: Calculate the Standard deviation
Given the actual expected return = 10%

Economy, Which Affects Demand	Probability of This Demand Occurring	Rate of Return if This Demand Occurs
Strong	0.3	15%
Normal	0.4	10%
Weak	0.3	5%

2.Given the following data were taken from the latest financial statements for a stable working company? Calculate the cash conversion cycle(CCC)?

Annual Sales	$1,216,666
Cost of goods sold	$1013889
Inventory	$250000
Accounts receivable	$300000
Accounts payable	$150000

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