Course No: MAN2301
Course title:Financial management
Date: 21/1/2015
No. of Questions: (6)
Time: 1 hours
Using Calculator (Yes)

University of Palestine

Final Exam
First Semester
2014/2015
Total Grade:

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College Name: Business and Finance
Dep. / Specialist: Accounting-English
Using Dictionary (No)

Question one:

State whether the following statements are true or false

	statement	T/F
1.	To make a meaningful judgment about the return, you need to know the scale (size) of the investment and the timing of the return	
2.	The rate of return on an investment can be calculated as follows: $\text{Return} = \dfrac{\text{Amount received} - \text{Amount invested}}{\text{Amount invested}}$	
3.	T-bill return is always constant.	
4.	Stand-alone risk = Market risk + Firm-specific risk	
5.	Firm-specific risk is a portion of a security's stand-alone risk that can be eliminated through proper diversification.	
6.	Capital Asset Pricing Model (CAPM), an important tool used to analyze the relationship between risk and rates of return.	
7.	If beta < 1.0, the security is less risky than average.	
8.	In a common size analysis, All income statement items are divided by sales.	
9.	Window dressing techniques can make statements and ratios look worse	
10.	The current ratio measures the company's ability to pay current liabilities with current assets.	

Question Two: Choose the correct answer:

1. ***Little Books Inc. recently reported $3 million of net income. Its EBIT was $6 million, and its tax rate was 40%. What was its interest expense?***

a) 1 million
b) 5 million
c) 2 million
d) 2.4 million
e) Other __________

Answer's method:

2. *A ratio measures the company's ability to pay current liabilities from current assets.*

a) Current ratio.
b) Acid test or quick ratio.
c) Assets turnover ratio
d) a + c
e) None of the answers above is correct.

3. *The risk an investor would face if the investor held only this one asset.*

a) Capital Asset Pricing Model (CAPM) Portfolio risk.
b) Stand -alone risk.
c) Free risk.
d) b +c.

4. *The Annual Report Usually Contains:*

a) Notes to the financial statements.
b) Accounting software.
c) Original invoices.
d) All answers are correct.

Question three:

1- A company has $200 billion of sales and $10 billion of net income. Its total assets are $100 billion, financed half by debt and half by common equity.

1) What is its profit ROA?

2) What is its ROE?

2- **Construct an amortization schedule for a $5,000, 8 percent annual rate loan with 3 equal installments (PMT).**

Year 1:	Year 2:	Year 3:

Year					
1					
2					
3					
TOTAL					

Question four:

1- ***Define the following terms:***

a) **Market risk:**

____

____

b) **Capital assets pricing model (CAPM):**

____

____

c) **Debt ratio:**

____

____

2- What are the potential problems and limitations of financial ratio analysis?

3- Compare between the stand-alone risk and portfolio risk?

Question five:

The following data apply to Amin Co. (millions $):

Cash and marketable securities	$ 120
Fixed assets	$ 340
Sales	$1,000
Net income	$ 50
Quick ratio	2.0
Current ratio	3.0
DSO	48.66 days
ROE	12%

Amin Co. has no preferred stock—only common equity, current liabilities, and long-term debt. Required: Find Amin Co.'s.

1- **Find Amin Co.'s (1) accounts receivable (A/R), (2) current liabilities, (3) current assets, (4) total assets, (5) ROA, (6) common equity, (7) long-term debt.**

Question six:

Balance Sheets: (Million US $)

Assets		Liabilities & Equity	
Cash and equivalents	50	Accounts payable	80
Accounts receivable	335	Notes payable	110
Inventories	615	Accruals	140
Total current assets	**1000**	**Total current liabilities**	**330**
Net plant and equipment	1000	Long-term bonds	734
		Total liabilities	**1064**
		Preferred stock (400,000 shares)	**30**
		Common stock (50million shares)	**140**
		Retained earnings	**766**
		Total common equity	**896**
Total assets	**2000**	**Total liabilities and equity**	**2000**

Income Statements: **(Million US $)**

Net sales	$3,000.0
Operating costs excluding depreciation and amortization	$2,616.2
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	$383.8
Depreciation	$100.0
Earnings before interest and taxes (EBIT, or operating income)	$ 283.8
Less interest	$ 88.0
Earnings before taxes (EBT)	$ 195.8
Taxes (40%)	$ 78.3
Net income	**$ 117.5**

Required:

1- ***Calculate four of the following ratios:***

1- Current ratio:

2- Days sales outstanding (DSO):

3- Total assets turnover:

4- Debt ratio:

5- Times-Interest-Earned Ratio

2- Make vertical analysis for the items of income statement:

End of Questions

Good Luck