

Course No: ACNE 2305
Course Title: Financial Management
Date: 24/10/2018
No. of Questions: 3
Time: 1
Using Calculator (No)

University of Palestine

First mid-term Exam
2017-2018
(A)

Instructor Name: Dr. Ala'a Khalil
Student No.: _____
Student Name: _____
College Name: Business and Finance
Dep. / Specialist: Accounting-English
Using Dictionary (No)

Question One: true or false (4 marks)

No.		True or false
1	Two disadvantages of a proprietorship are (1) the relative difficulty of raising new capital and (2) the owner's unlimited personal liability for the business' debts.	
2	If a firm's goal is to maximize its earnings per share, this is the best way to maximize the price of the common stock and thus shareholders' wealth.	
3	The facts that a proprietorship, as a business, pays no corporate income tax, and that it is easily and inexpensively formed, are two key advantages to that form of business.	
4	The annual report contains four basic financial statements: the income statement, balance sheet, statement of cash flows, and statement of stockholders' equity.	
5	On the balance sheet, total assets must always equal total liabilities and equity.	
6	The income statement shows the difference between a firm's income and its costs--i.e., its profits--during a specified period of time. However, not all reported income comes in the form of cash, and reported costs likewise may not correctly reflect cash outlays. Therefore, there may be a substantial difference between a firm's reported profits and its actual cash flow for the same period.	
7	The retained earnings account on the balance sheet does not represent cash. Rather, it represents part of stockholders' claims against the firm's existing assets. This implies that retained earnings are in fact stockholders' reinvested earnings.	
8	To estimate the cash flow from operations, depreciation must be added back to net income because it is a non-cash charge that has been deducted from revenue.	

Question Two : Mention the structures of business organizations: (1.5 marks)

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Question Three : Choose the correct answer (9.5 marks)

1	<p>The primary operating goal of a publicly-owned firm interested in serving its stockholders should be to</p> <p>a. Maximize the stock price per share over the long run, which is the stock's intrinsic value . b. Maximize the firm's expected EPS. c. Minimize the chances of losses. d. Maximize the firm's expected total income. e. Maximize the stock price on a specific target date.</p>
2	<p>Which of the following statements is CORRECT?</p> <p>a. One of the disadvantages of incorporating a business is that the owners then become subject to liabilities in the event the firm goes bankrupt. b. Sole proprietorships are subject to more regulations than corporations. c. In any type of partnership, every partner has the same rights, privileges, and liability exposure as every other partner. d. Sole proprietorships and partnerships generally have a tax advantage over many corporations, especially large ones. e. Corporations of all types are subject to the corporate income tax.</p>
3	<p>Which of the following statements is CORRECT?</p> <p>a. One of the disadvantages of a sole proprietorship is that the proprietor is exposed to unlimited liability. b. It is generally easier to transfer one's ownership interest in a partnership than in a corporation. c. One of the advantages of the corporate form of organization is that it avoids double taxation. d. One of the advantages of a corporation from a social standpoint is that every stockholder has equal voting rights, i.e., "one person, one vote". e. Corporations of all types are subject to the corporate income tax.</p>
4	<p>Cheers Inc. operates as a partnership. Now the partners have decided to convert the business into a regular corporation. Which of the following statements is CORRECT?</p> <p>a. Assuming Cheers is profitable, less of its income will be subject to federal income taxes. b. Cheers will now be subject to fewer regulations. c. Cheers' shareholders (the ex-partners) will now be exposed to less liability. d. Cheers' investors will be exposed to less liability, but they will find it more difficult to transfer their ownership. e. Cheers will find it more difficult to raise additional capital.</p>
5	<p>Which of the following statements is CORRECT?</p> <p>a. It is usually easier to transfer ownership in a corporation than it is to transfer ownership in a sole proprietorship. b. Corporate shareholders are exposed to unlimited liability. c. Corporations generally face fewer regulations than sole proprietorships. d. Corporate shareholders are exposed to unlimited liability, and this factor may be compounded by the tax disadvantages of incorporation. e. Shareholders in a regular corporation (not an S corporation) pay higher taxes than owners of an otherwise identical proprietorship.</p>

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6	<p>Which of the following statements is CORRECT?</p> <p>a. The four most important financial statements provided in the annual report are the balance sheet, income statement, cash budget, and the statement of stockholders' equity.</p> <p>b. The balance sheet gives us a picture of the firm's financial position at a point in time.</p> <p>c. The income statement gives us a picture of the firm's financial position at a point in time.</p> <p>d. The statement of cash flows tells us how much cash the firm has in the form of currency and demand deposits.</p> <p>e. The statement of cash needs tells us how much cash the firm will require during some future period, generally a month or a year.</p>												
7	<p>Other things held constant, which of the following actions would increase the amount of cash on a company's balance sheet?</p> <p>a. The company repurchases common stock.</p> <p>b. The company pays a dividend.</p> <p>c. The company issues new common stock.</p> <p>d. The company gives customers more time to pay their bills.</p> <p>e. The company purchases a new piece of equipment.</p>												
8	<p>Which of the following items cannot be found on a firm's balance sheet under current liabilities?</p> <p>a. Accounts payable.</p> <p>b. Short-term notes payable to the bank.</p> <p>c. Accrued wages.</p> <p>d. Cost of goods sold.</p> <p>e. Accrued payroll taxes.</p>												
9	<p>Below is the common equity section (in millions) of Teweles Technology's last two year-end balance sheets:</p> <table><tr><td></td><td>2009</td><td>2008</td></tr><tr><td>Common stock</td><td>\$ 2,000</td><td>\$ 1,000</td></tr><tr><td>Retained earnings</td><td>2,000</td><td>2,340</td></tr><tr><td>Total common equity</td><td>4,000</td><td>3,340</td></tr></table> <p>Teweles has never paid a dividend to its common stockholders. Which of the following statements is CORRECT?</p> <p>a. The company's net income in 2009 was higher than in 2008.</p> <p>b. Teweles issued common stock in 2009.</p> <p>c. The market price of Teweles' stock doubled in 2009.</p> <p>d. Teweles had positive net income in both 2008 and 2009, but the company's net income in 2009 was lower than it was in 2008.</p> <p>e. The company has more equity than debt on its balance sheet.</p>		2009	2008	Common stock	\$ 2,000	\$ 1,000	Retained earnings	2,000	2,340	Total common equity	4,000	3,340
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10	<p>Tucker Electronic System's current balance sheet shows total common equity of \$3,125,000. The company has 125,000 shares of stock outstanding, and they sell at a price of \$52.50 per share. By how much do the firm's market and book values per share differ?</p> <p> a. \$27.50 b. \$28.88 c. \$30.32 d. \$31.83 e. \$33.43 </p>
11	<p>Which of the following statements is CORRECT?</p> <p> a. The more depreciation a firm reports, the higher its tax bill, other things held constant. b. People sometimes talk about the firm's net cash flow, which is shown as the lowest entry on the income statement, hence it is often called "the bottom line". c. Depreciation reduces a firm's cash balance, so an increase in depreciation would normally lead to a reduction in the firm's net cash flow. d. Net cash flow (NCF) is often defined as follows: Net Cash Flow = Net Income + Depreciation and Amortization Charges. e. Depreciation and amortization are not cash charges, so neither of them has an effect on a firm's reported profits. </p>
12	<p>Companies generate income from their "regular" operations and from other sources like interest earned on the securities they hold, which is called non-operating income. Lindley Textiles recently reported \$12,500 of sales, \$7,250 of operating costs other than depreciation, and \$1,000 of depreciation. The company had no amortization charges and no non-operating income. It had \$8,000 of bonds outstanding that carry a 7.5% interest rate, and its federal-plus-state income tax rate was 40%. How much was Lindley's operating income, or EBIT?</p> <p> a. \$ 3,462 b. \$ 3,644 c. \$3,836 d. \$4,038 e. \$4,250 </p>
13	<p>JBS Inc. recently reported net income of \$4,750 and depreciation of \$885. How much was its net cash flow, assuming it had no amortization expense and sold none of its fixed assets.</p> <p> a. \$4,831.31 b. \$5,085.59 c. \$5,353.25 d. \$5,635.00 e. \$5,916.75 </p>
14	<p>On 12/31/10, Heaton Industries Inc. reported retained earnings of \$675,000 on its balance sheet, and it reported that it had \$172,500 of net income during the year. On its previous balance sheet, at 12/31/09, the company had reported \$555,000 of retained earnings. No shares were repurchased during 2010. How much in dividends did Heaton pay during 2010?</p> <p> a. \$47,381 b. \$49,875 c. \$52,500 d. \$55,125 e. \$57,881 </p>

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