Course No: MAN 2301 **Course title: Financial management** **Date: 25/11/2014** **No. of Questions: (3)** **Time: 1 hours** **Using Calculator (Yes)**	**University of Palestine** **Midterm Exam** **first Semester** **2014/2015** **Total Grade:**	**Instructor Name: Dr. Ahmed Al-Afifi** **Student No.: ________________** **Student Name: _______________** **College Name: Business and Finance** **Dep. / Specialist: Accounting-English** **Using Dictionary (No)**

Question One:

State whether the following statements are true or false **(write answer steps for calculating questions)**

	statement	**T/F**
1.	One of the advantages of corporation is Limited liability.	
2.	The Future Value of an initial $100 after 3 years, if I/YR = 10% is 300. ____ ____	
3.	Income statement provides a snapshot of firm's financial position at one point in time.	
4.	The statement of cash flow separates activities into operating and financing.	
5.	One of the Disadvantages of Sole proprietorships is No corporate income taxes.	
6.	MVA shows the value added during given year, while EVA reflects performance over the company's life	
7.	If a given security has a cost of $130 and that it will return $225 after 7 years. The rate of return you will earn if you buy the security is 4.3%. ____ ____ ____	

Question Two:

Omar Co. had $20 million in operating current assets and $8 million in operating current liabilities. The company had a net depreciation expense of $3 million and an interest expense of $2 million; its corporate tax rate was 40%. The company has $8 million in operating income (EBIT). It has $18 million in net buildings and equipment. It estimates that it has an after-tax cost of capital of 10%. Assume that Omar's only noncash item was depreciation.

Required:

a. **What was the company's net income for the year?**

b. What was the company's net cash flow?

c. Calculate net operating working capital?

d. If total net operating capital in the previous year was $28 million, what was the company's free cash flow (FCF) for the year?

e. What was the company's Economic Value Added (EVA)?

Question Three:

1) Find the PVA_N of an ordinary annuity with 10 payments of $100 if the appropriate interest rate is 10%:

2) Construct an amortization schedule for a $5,000, 5% annual rate loan with 2 equal payments.

Year					
1					
2					
TOTAL					

End of Questions

Good Luck

Annex

EBIT = Sales revenues − Operating costs

EBITDA = EBIT + Depreciation + Amortization

Net cash flow = Net income + Depreciation & amortization

Net cash flow = Net income − Noncash revenues + Noncash charges

$$\textbf{Earnings per share (EPS)} = \frac{\textbf{Net income}}{\textbf{Common shares outstanding}}$$

$$\textbf{Dividends per share (DPS)} = \frac{\textbf{Dividends paid to common stockholders}}{\textbf{Common shares outstanding}}$$

$$\textbf{Cash flow per share (CFPS)} = \frac{\textbf{Net income + Depreciation + Amortization}}{\textbf{Common shares outstanding}}$$

$$\textbf{Book value per share (BVPS)} = \frac{\textbf{Total common equity}}{\textbf{Common shares outstanding}}$$

NOWC = Operating C.A. – Operating C.L

NOWC = (Cash + Accounts receivable + Inventories) – (Accounts payable + Accruals)

Net investment in operating capital = NOWC + Operating long-term assets

NOPAT = EBIT (1 – T)

FCF = NOPAT − Net investment in operating capital

EVA = NOPAT – (Total capital) (After-tax cost of capital)

OCF = NOPAT + Depreciation & amortization

FCF = OCF – Gross capital investment

FCF = NOPAT – Net capital investment

MVA = Market value of stock - Equity capital supplied

MVA = (Shares outstanding) (Stock price) - Total common equity

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EVA = After-tax Operating Income – After-tax Capital costs × (capital)

EVA = Funds Available to Investors - Cost of Capital Used

EVA = NOPAT – (After-tax Cost of Capital × capital)

FV= $PV (1 + i)^{n}$

PV = $FV / (1 + i)^{n}$

$$FVA_N = PMT \times \left\{ \frac{(1+I)^N - 1}{I} \right\}$$

$$FVA_{due} = FVA_{ordinary} (1+I)$$

$$PVA_N = PMT \times \left\{ \frac{1 - (1+I)^{-N}}{I} \right\}$$

$$PVA_{due} = PVA_{ordinary} (1+I)$$