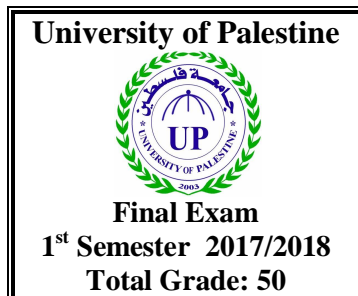


Course No: ACC 2304 - MAN 3304 – MGNE 3309
Course Title: Advanced Financial Management
Financial Statement Analysis
Date: --/01/2018
No. of Questions: (8)
Time: 2 hour
Using Calculator (yes)



Instructor Name: Dr. Khaled Eissa
Mr. Tarek AbuAl-Ageen
Student No.: _____
Student Name: _____
College Name: Business Administration

Answer 6 Questions Only

Question 1:

Mars Inc. is considering the purchase of a new machine which will reduce manufacturing costs by \$5,000 annually. Mars will use the MACRS accelerated method to depreciate the machine, and it expects to sell the machine at the end of its 5-year operating life for \$10,000. The firm expects to be able to reduce net operating working capital by \$15,000 when the machine is installed, but required working capital will return to the original level when the machine is sold after 5 years. Mars's marginal tax rate is 40 percent, and it uses a 12 percent cost of capital to evaluate projects of this nature. If the machine costs \$60,000, what is the project's NPV?

Question 2:

Virus Stopper Inc., a supplier of computer safeguard systems, uses a cost of capital of 12 percent to evaluate average-risk projects, and it adds or subtracts 2 percentage points to evaluate projects of more or less risk. Currently, two mutually exclusive projects are under consideration. Both have a cost of \$200,000 and will last 4 years. Project A, a riskier-than-average project, will produce annual end of year cash flows of \$71,104. Project B, of less than average risk, will produce cash flows of \$146,411 at the end of Years 3 and 4 only. Virus Stopper should accept.

Question 3:

Michigan Mattress Company is considering the purchase of land and the construction of a new plant. The land, which would be bought immediately (at $t = 0$), has a cost of \$100,000 and the building, which would be erected at the end of the first year ($t = 1$), would cost \$500,000. It is estimated that the firm's after-tax cash flow will be increased by \$100,000 starting at the end of the second year, and that this incremental flow would increase at a 10 percent rate annually over the next 10 years. What is the approximate payback period?

Question 4:

A company has determined that its optimal capital structure consists of 40 percent debt and 60 percent equity. Given the following information, calculate the firm's weighted average cost of capital.

- $r_d = 6\%$
- Tax rate = 40%
- $P_0 = \$25$
- Growth = 0%
- $D_0 = \$2.00$

Question 5:

The D.J. Masson Corporation needs to raise \$1,000,000 for 1 year to supply working capital to a new store. Masson buys from its suppliers on terms of 2/10, net 60, and it currently pays on the 10th day and takes discounts. However, it could forgo the discounts, pay on the 60th day, and thereby obtain the needed \$1,000,000 in the form of costly trade credit. What is the effective annual interest rate of this trade credit?

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Question 6:

The Zocco Corporation has an inventory conversion period of 45 days, an average collection period of 30 days, and a payables deferral period of 15 days. Assume that cost of goods sold is 75% of sales.

Required:

- What is the length of the firm's cash conversion cycle?
- If Zocco's annual sales are \$1,711,000 and all sales are on credit, what is the firm's investment in accounts receivable?
- How many times per year does Zocco turn over its inventory?

Question 7:

Taft Company has the following relationships:

Annual sales	\$1,200,000
Current liabilities	\$ 375,000
Days sales outstanding (DSO) (365-day year)	40
Inventory Turnover ratio	4.8
Current ratio	1.2

The company's current assets consist of cash, inventories, and accounts receivable. How much cash does Taft have on its balance sheet?

Question 8:

The Controller of Trenshaw Company wants to improve the company's control system by preparing a month-by-month cash budget. The following information is for the month ending July 31, 2017

June 30, 2017, cash balance	\$45,000
Dividends to be declared on July 15*	12,000
Cash expenditures to be paid in July for operating expenses	40,800
Amortization expense in July	4,500
Cash collections to be received in July	90,000
Merchandise purchases to be paid in cash in July	56,200
Equipment to be purchased for cash in July	20,000

* Dividends are payable 30 days after declaration to shareholders of record on the declaration date

Trenshaw Company wants to keep a minimum cash balance of \$25,000

Required:

Prepare a cash budget for the month ended July 31, 2017 and indicate how much money, if any, Trenshaw Company will need to borrow to meet its minimum cash requirement.