Course No:MAN3304
Course Title: Advanced Financial Management
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Time: 1hours
Using Calculator (Yes)

University of Palestine

Mid-term Exam
Summer semester
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Total Grade: _%

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Dep. / Specialist: ____________
Using Dictionary (No)

First Question: Choose the correct answer (20 Questions)

1. The cost of capital reflects the cost of funds

   A. Over the short run
   B. At current book values
   C. At historical values
   D. Over the long run

2- One major expense associated with issuing new shares of common stock is

   A. Legal fees
   B. Flotation costs
   C. Registration fees
   D. Overpricing

3- For which source of funds, does the firm normally ignore flotation costs?

   A. Long-term debt
   B. Preferred stock
   C. Common stock
   D. Retained earnings

4- A firm has common stock with a market price of $45 per share and an expected dividend of $3 per share at the end of the coming year. The growth rate in dividends has been 4%. The cost of the firm's retained earnings is

   a. 8.42%
   b. 9.75%
   c. 10.67%
   d. 11.25%

5- A firm has a beta of 1.1. The expected return on the market portfolio is 12% and the risk-free rate of return equals to 4%. The estimated cost of new common equity is

   A. 9.80%
   B. 10.4%
   C. 11.2%
   D. 12.8%

6- The cost of capital is affected by a number of factors. Which of the following is beyond a firm's control?

   A. Tax policy
   B. Investment policy
   C. Capital structure policy

7- If a capital project is to be funded by a single source of capital,

A. Only the cost of that source should be used to evaluate the project
B. The project should be evaluated using the firm's WACC
C. A close matching of the funding source should be made
D. None of the above

8- A firm is considering an investment proposal that has an initial cost of $1,500 and discounted cash flows valued at $1,000. What is the net present value of this project?

A. -$500
B. $0
C. $500
D. $1,000

9- Which of the following is true regarding the relationship between NPV and shareholder wealth?

A. The relationship depends on the specific project
B. A project with a positive NPV increases shareholder wealth
C. There is no relationship
D. A project with a positive NPV reduces shareholder wealth

10- If the IRR for a project is 10%, then the project's NPV will be

A. Zero at a discount rate of 10%
B. Positive at a discount rate of 15%
C. c. Negative at a discount rate of 5%
D. d. Zero at a zero discount rate

11- A and B are two mutually exclusive projects. If the NPV method selects A while IRR selects B, then

A. Project A should be chosen
B. Project B should be chosen
C. Both should be chosen
D. Both should be rejected

12- How many IRRs are possible for this 2-year project with cash flows: CF0 = -$1.6, CF1 =+$10, and CF2 = -$10?

A. 0
B. 1
C. 2
D. 3

13- A and B are two independent projects. While Project A has a PI of 0.6, Project B has a PI of 0.95.

A. Accept A, and reject B
B. Reject A, and accept B
C. Accept both A and B
D. Reject both A and B

14- If a firm can use only one capital budgeting technique to evaluate projects, which one should be chosen?

A. Payback period
B. Net present value
C. Profitability index
D. Internal rate of return

15- A and B are mutually exclusive. Project A has a life span of 3 years, while Project B is 2 years in length. What is the most appropriate capital budgeting technique for project valuation?

A. Net present value
B. Profitability index
C. Equivalent annual annuity
D. Accounting rate of return

16- Capital rationing

A. Results in all projects with positive NPVs being accepted
B. Seldom occurs in the real world
C. Encourages risk-taking activities
D. Can be a constraint on the capital budget imposed by the markets

17- When a positive net acquisition exists in a CCA pool,

A. A new CCA rate will be used in the pool
B. Half-year rule applies
C. A terminal loss must be calculated
D. Capital gains arise

18- Firms continue to earn CCA tax savings even after an asset is sold from the existing pool if

A. They are small Canadian-controlled private corporations (CCPCs)
B. Salvage value is zero
C. The present value of the tax shields is negative
D. The un-depreciated capital cost (UCC) is positive and greater than salvage

19- One easy way to estimate the after-tax operating cash flows for a project is to

A. Add cash expenses to net income
B. Subtract depreciation from net income
C. Add non-cash charges to net income
D. Subtract retained earnings from net income

20- Which of the following should not be included for cash flow estimations?

A. Incremental expenses
B. Financing costs
C. Opportunity costs
D. Cannibalization effect

Second Question: Defined and Describe the following: (5 Questions)

1. The Capital Budgeting:
2. The Cost of Capital Allowance:
3. Sunk costs:
4. Net Present Value:
5. Describe the types of analysis and simulation method for evaluating projects?

Third Question: (5 Questions)

1- The table below shows that a firm's component cost of capital and optimal capital structure.

Source of Capital	Long-term Debt	Preferred Stock	Common Stock Equity
Proportion	45%	15%	40%
After-tax cost	7%	10%	14%

What is the weighted average cost of capital (WACC)?

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2- A firm has issued 6% preferred stock sold for $100 per share par value. The flotation costs of the stock are $2 and the firm's tax rate is 40%. What is the cost of preferred stock?

3- A project requires an initial investment of $500, a cash inflow of $125 in the first year and inflows of $250 each year for the next two years. What is the payback period for this project?

4- A firm has $1,000 earnings before tax, $200 depreciation expenses, and a 35% tax rate. What is its operating cash flow?

5- Use the data below to find the change in net working capital for a firm.

Account Item	Cash	Accounts Payable	Accruals	Depreciation	Inventories
Change in Balance	+$100	+$240	+$50	+$10	+$150

Good Luck