

True/ False ( 1 pt. each )

1. T F Rate of Return on Assets and Rate of Return on Equity are measures of profitability.
2. T F Assets are things of value owned by a business.
3. T F Debt is the money a firm owes to others.
4. T F A firm is said to be insolvent if its assets are less than debts.
5. T F A firm is solvent if it has a positive net worth or equity position.
6. T F Working capital is a measure of a firm's liquidity
7. T F A firm is said to be liquid if the current ratio is greater than 1.
8. T F Current assets are those assets that will normally be turned into cash within a year.
9. T F The debt to asset ratio is measure of solvency.
10. T F A value of .70 or more for the debt to asset ratio is a sign of high leverage.
11. T F Debt to equity is another measure of a firm's solvency.
12. T F Turnover is computed by dividing the total value of production by average total assets.
13. T F A firm is said to be operating satisfactorily when the rate of return on assets exceeds the rate of return on equity.
14. T F A firm can profitably use credit when it is able to earn a rate of return on assets that exceeds the interest rate charged on debt.
15. T F As a firm decreases its asset to equity position it has greater financial risks.



19. Compute interest expense for the case where interest payments are \$25,000, beginning accrued interest is \$5,000, and ending accrued interest is \$14,000.  
( 4 points )
20. Compute the rate of return on equity for the case where: the rate of return on assets is 12%; the cost of debt is 8%; and the assets to equity ratio is 2.0.  
( 4 points )

21. Use the risk dominance decision criteria to identify which of the following investments, with the stated return and risk characteristics, are risk efficient. ( 5 points )

<u>Investment</u>	<u>Return</u>	<u>Risk</u>
A	7	4
B	13	16
C	9	8
D	4	3
E	16	13
F	13	14

22. Assume you have just purchased a new tractor for \$120,000. You believe this tractor has a useful life of five ( 6 ) years and will have a salvage value of \$30,000 at the end of five years. Given these assumption, complete the tables below for the straight-line and double declining balance depreciation methods. ( 4 points )

Straight-line Depreciation		
Year	Depreciation Expense	Ending Book Value
1		
2		
3		
4		
5		
6		

Double Declining Balance		
Year	Depreciation Expense	Ending Book Value
1		
2		
3		
4		
5		
6		

23. Given the financial information below construct an income statement on the following page and make sure you report:

- a) Total Income ( 2 points )
- b) Total Operating Expenses ( 2 points )
- c) Interest Expense ( 2 points )
- d) Net Farm Income ( 2 points )

**Balance Sheet**

**Cash Flow Statement**

	Beginning	Ending		
Assets			Cash Operating Income	476800
Cash	2000	5000	Less: Purchased Inventories	-100000
Inventories	15000	40000	Less: Cash Operating Expenses	-133800
Accounts Payable	25000	10000	Less: Interest Payments	-35000
Prepaid Expenses	50000	20000		
Total Current Assets	92000	75000	<b>Net Cash Flow From Operations</b>	<b>208000</b>
Mach. & Equip	200000	200000	Uses of Cash	
Less: Accum. Depr	-125000	-150000	Operating Loan Payment	55000
Farm Structures	400000	500000	Mortgage Payment	15000
Less: Accum. Depr	-100000	-140000	Purch of Mach & Equip	100000
Land	500000	500000	Living Withdrawal	35000
Total Non-Current Assets	875000	910000	<b>Total Uses of Cash</b>	<b>205000</b>
Total Assets	967000	985000	Net Cash Flow	3000
Liabilities & Net Worth			Beginning Cash	2000
Accounts Payable	15000	75000	Ending Cash	5000
Operating Loan	80000	25000		
Accrued Interest Payable	10000	15000		
Accr. Property taxes	4500	9000		
Total Current Liabilities	109500	124000		
Farm Real Estate Mortgage	420000	405000		
Total Liabilities	529500	529000		
Net Worth	437500	456000		



24. Using the balance sheet, income statement, and cash flow information below, compute the following financial measures ( 2 points each ):

Turnover ratio

Operating profit margin

Rate of Return on Assets

Rate of Return on Equity

Cost of Debt

***Balance Sheet Information***

Assets	1000000.00
Debts	800000.00
Equity	200000.00

***Income Statement Information***

Value of Production	500000.00
Operating Expenses	387000.00
Interest Expense	56000.00
Total Expenses	443000.00
Net Farm Income	57000.00

***Cash Flow Information***

Living Withdrawals	35000.00
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