

Final Exam
AAE 419
Fall 2001

SSN: _____

1. Explain the difference between the current and noncurrent classifications assigned to assets and liabilities when they are reported on a balance sheet. (3 points)
2. Explain the difference between accrual and cash basis accounting. (3 points)
3. Identify the two types of capital that are exchanged in financial markets. (3 pts)

12. Assume that your firm, a multi-national corporation which exploits third world countries, has determined that is advantageous to maintain a debt to asset of .40 at all times. Given this, compute the net present value for an investment costing \$10 million that yields \$1 million per year over 15 years before it eventually becomes worthless. For your analysis assume the cost of debt is 8 percent, the cost of equity is 10 percent, and the marginal tax rate is 37.50 percent. (8 pts)

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

<u>Investment</u>	<u>Return</u>	<u>Risk</u>
A	9	6
B	15	18
C	11	10
D	6	5
E	18	15
F	15	16

14. For an 8 percent cost of capital, compute the future value of \$1 in five years with:

semi-annual compounding (2 pts)

quarterly compounding (2 pts)

15. Assume that you have two investments with the following return, risk, and correlation characteristics.

	Investment A	Investment B
Expected rate of return	8 %	12 %
Standard derivation of return	2 %	3.5 %
Correlation of expected returns	-.75	-----

Using the above information, compute the expected return and the standard deviation of return for a portfolio that has 33% in Investment A and 67% in Investment B. (5 pts.)

16. Given the financial statement information below compute:

- Asset turnover, (2 pts)
- Operating profit margin, (2 pts)
- Rate of return on assets, (2 pts)
- Rate of return on equity, (2 pts)
- Cost of debt, (2 pts)
- Capital debt repayment capacity (2 pts)
- Current ratio (2 pts)
- Debt to Asset (2 pts)

Balance Sheet

Cash	10000
Accounts Receivable	0
Inventories	30000
Supplies	40000
 Total Current Assets	 80000
 Machinery	 350000
Less: Acc. Depr.	-75000
 Real Estate	 3000000
 Total Assets	 3355000
 Accounts Payable	 60000
Operating Loan	80000
Accrued Expenses	0
Accrued Interest Payable	8000
Current Portion Term Debts	0
 Total Current Liabilities	 148000
 Long Term Liabilities	 0
 Total Liabilities	 148000
 Net Worth	 3207000

Cash Flow

Cash Operating Income	275000
Borrow on Oper. Loan	60000
Total Cash Receipts	335000
Cash Operating Expenses	150000
Interest Payments	1000
Family Living Withdrawals	65000
Payments on Oper. Loan	0
Total Cash Expenditures	216000
Net Cash Flow	119000

Income Statement

Cash Oper Income	275000
Change Accounts Receivable	0
Change Inventories	15000
Total Income	290000
Cash Oper Expenses	150000
Change Accounts Payable	30000
Change Accrued Expenses	0
Change Supplies	40000
Depreciation Expense	80000
Total Operating Expenses	300000
Interest Payments	1000
Change Accrued Interest	8000
Interest Expense	9000
Total Expenses From Operations	309000
Net Farm Income	-19000

Single Payment Present Value Factors

Time	Cost of Capital					
	2.00%	4.00%	6.00%	8.00%	10.00%	12.00%
1	0.9804	0.9615	0.9434	0.9259	0.9091	0.8929
2	0.9612	0.9246	0.8900	0.8573	0.8264	0.7972
3	0.9423	0.8890	0.8396	0.7938	0.7513	0.7118
4	0.9238	0.8548	0.7921	0.7350	0.6830	0.6355
5	0.9057	0.8219	0.7473	0.6806	0.6209	0.5674
6	0.8880	0.7903	0.7050	0.6302	0.5645	0.5066
7	0.8706	0.7599	0.6651	0.5835	0.5132	0.4523
8	0.8535	0.7307	0.6274	0.5403	0.4665	0.4039
9	0.8368	0.7026	0.5919	0.5002	0.4241	0.3606
10	0.8203	0.6756	0.5584	0.4632	0.3855	0.3220
11	0.8043	0.6496	0.5268	0.4289	0.3505	0.2875
12	0.7885	0.6246	0.4970	0.3971	0.3186	0.2567
13	0.7730	0.6006	0.4688	0.3677	0.2897	0.2292
14	0.7579	0.5775	0.4423	0.3405	0.2633	0.2046
15	0.7430	0.5553	0.4173	0.3152	0.2394	0.1827
16	0.7284	0.5339	0.3936	0.2919	0.2176	0.1631
17	0.7142	0.5134	0.3714	0.2703	0.1978	0.1456
18	0.7002	0.4936	0.3503	0.2502	0.1799	0.1300
19	0.6864	0.4746	0.3305	0.2317	0.1635	0.1161
20	0.6730	0.4564	0.3118	0.2145	0.1486	0.1037

Uniform Series Present Value Factors

	Cost of Capital					
	2.00%	4.00%	6.00%	8.00%	10.00%	12.00%
1	0.9804	0.9615	0.9434	0.9259	0.9091	0.8929
2	1.9416	1.8861	1.8334	1.7833	1.7355	1.6901
3	2.8839	2.7751	2.6730	2.5771	2.4869	2.4018
4	3.8077	3.6299	3.4651	3.3121	3.1699	3.0373
5	4.7135	4.4518	4.2124	3.9927	3.7908	3.6048
6	5.6014	5.2421	4.9173	4.6229	4.3553	4.1114
7	6.4720	6.0021	5.5824	5.2064	4.8684	4.5638
8	7.3255	6.7327	6.2098	5.7466	5.3349	4.9676
9	8.1622	7.4353	6.8017	6.2469	5.7590	5.3282
10	8.9826	8.1109	7.3601	6.7101	6.1446	5.6502
11	9.7868	8.7605	7.8869	7.1390	6.4951	5.9377
12	10.5753	9.3851	8.3838	7.5361	6.8137	6.1944
13	11.3484	9.9856	8.8527	7.9038	7.1034	6.4235
14	12.1062	10.5631	9.2950	8.2442	7.3667	6.6282
15	12.8493	11.1184	9.7122	8.5595	7.6061	6.8109
16	13.5777	11.6523	10.1059	8.8514	7.8237	6.9740
17	14.2919	12.1657	10.4773	9.1216	8.0216	7.1196
18	14.9920	12.6593	10.8276	9.3719	8.2014	7.2497
19	15.6785	13.1339	11.1581	9.6036	8.3649	7.3658
20	16.3514	13.5903	11.4699	9.8181	8.5136	7.4694