

1. Stockholders' equity is:
  - a. The fair market value of a company.
  - b. Liabilities minus assets.
  - c. Contributed capital plus retained earnings.
  
2. BackInSoon, Inc., has estimated that a proposed project's 10-year annual net cash benefit, received each year end, will be \$2,500 with an additional terminal benefit of \$5,000 at the end of the tenth year. Assuming that these cash inflows satisfy exactly BackInSoon's required rate of return of 8 percent, calculate the initial cash outlay.
  - a. \$16,775
  - b. \$19,090
  - c. \$25,000
  
3. Which of the following statements is correct?
  - a. If the NPV of a project is greater than 0, its PI will equal 0.
  - b. If the IRR of a project is 0%, its NPV, using a discount rate, k, greater than 0, will be 0.
  - c. If the PI of a project is less than 1, its NPV should be less than 0.
  
4. Which of the following components of the DuPont System for Hill Inc. is correct? sales = \$5,600; earnings before tax (EBT) = \$2,090; T = 40 percent; total liability = \$30,900; Equity = \$16,500.
  - a. Net profit margin = 37.32%
  - b. Asset turnover = 11.81%
  - c. Leverage = 1.87

Net profit margin = NI/Sales =  $(2,090)(1 - 0.4)/(5,600) = 1,254/5,600 = 22.39\%$   
 Asset Turnover = Sales/Assets =  $5,600 / (30,900 + 16,500) = 5,600/47,400 = 11.81\%$   
 Leverage = Assets/Equity =  $47,400/16,500 = 2.87$
  
5. Lei-Feng, Inc.'s \$100 par value preferred stock just paid its \$10 per share annual dividend. The preferred stock has a current market price of \$96 a share. The firm's marginal tax rate (combined federal and state) is 40 percent, and the firm plans to maintain its current capital structure relationship into the future. The component cost of preferred stock to Lei-Feng, Inc. would be closest to
  - a. 6%
  - b. 10%
  - c. 10.4%
  
6. As a firm's cash conversion cycle increases, the firm:
  - a. Becomes less profitable.
  - b. Increases its investment in working capital.
  - c. Reduces its accounts payable period.

7. The LMN Corporation is considering an investment that will cost \$80,000 and have a useful life of 4 years. During the first 2 years, the net incremental after-tax cash flows are \$25,000 per year and for the last two years they are \$20,000 per year. What is the payback period for this investment?
  - a. 3.2 years
  - b. 3.5 years
  - c. 4 years
  
8. A (n) \_\_\_\_\_ would be an example of a principal, while a (n) \_\_\_\_\_ would be an example of an agent.
  - a. Shareholder; manager
  - b. Manager; owner
  - c. Accountant; bondholder
  
9. The company cost of capital for a firm with a 60/40 debt/equity split, 8% cost of debt, 15% cost of equity, and a 35% tax rate would be:
  - a. 7.02%
  - b. 9.12%
  - c. 13.80%
  
10. A company's \_\_\_\_\_ is (are) potentially the most effective instrument of good corporate governance.
  - a. Common stock shareholders
  - b. Board of directors
  - c. Top executive officers
  
11. Ninety-percent of Vogel Bird Seed's total sales of \$600,000 is on credit. If its year-end receivables turnover is 5, the average collection period (based on a 365-day year) and the year-end receivables are, respectively:
  - a. 365 days and \$108,000.
  - b. 73 days and \$120,000.
  - c. 73 days and \$108,000.
  
12. Woatich Windmill Company is considering a project that calls for an initial cash outlay of \$50,000. The expected net cash inflows from the project are \$7,791 for each of 10 years. What is the IRR of the project?
  - a. 6%
  - b. 8%
  - c. 9%

13. The Pan American Bottling Co. is considering the purchase of a new machine that would increase the speed of bottling and save money. The net cost of this machine is \$45,000. The annual cash flows have the following projections.

Year	Cash Flow
1	\$15,000
2	\$20,000
3	\$25,000
4	\$10,000
5	\$5,000

What is the net present value of selecting the new machine, assuming cost of capital of 10%?

- a. \$11,883
  - b. \$13,883
  - c. \$15,883
14. As a firm's cash conversion cycle increases, the firm:
- a. Becomes less profitable.
  - b. Increases its investment in working capital.
  - c. Reduces its accounts payable period.
15. The following information for a company is available:
- Risk-free rate = 7.00%
  - Expected market return = 15.00%
  - Beta = 1.50
  - Dividend payout ratio = 50%
  - Profit margin = 10.0%
  - Total asset turnover = 0.75
  - Assets to equity ratio = 2.00
- What is the capital asset pricing model (CAPM) required rate of return for this stock?
- a. 10.73%.
  - b. 16.00%.
  - c. 19.00%.
16. A (n) \_\_\_\_\_ would be an example of a principal, while a (n) \_\_\_\_\_ would be an example of an agent.
- a. Shareholder; manager
  - b. Manager; owner
  - c. Accountant; bondholder

17. Assuming that the most recent year's earnings are \$5, what is the estimated value of the stock using the earnings multiplier method of valuation?
- \$23.32.
  - \$29.14.
  - \$41.18.
18. What will be the category of company, whose stock could most suitably be valued using The constant-growth dividend discount model:
- "Mature" company.
  - Rapidly growing company.
  - A Start up
19. One feature which makes price/sales (P/S) multiple for stock valuation sensible is:
- Profit margins are normally consistent across firms within an industry.
  - Sales are relatively stable and might not change, thus giving stability to stock price, even though earnings might change significantly.
  - P/S multiple provides a framework to evaluate the effects of corporate policy decisions and price changes.
20. A project's initial cost is \$100 million, and the required rate of return is 10%. Following is the cash inflow for subsequent years:
- Year 1: \$ 20 million
  - Year 2: \$ 50 million
  - Year 3: \$ 40 million
- The financing cost for the project is 2%. Calculate the NPV and determine whether we should accept or reject the project.
- 10.44, Reject
  - 13.81, Reject
  - 13.81, Accept