**BUS312 Sample mid term exam**

**Question #1 \*\* [9]**

ABC Corp’s accountant has drawn up the books to calculate the taxable income. As she is about to mail the cheque to the tax man she realises that she forgot all about the CCA and recaptured CCA of asset class X.

The details of the asset class are as follows - the CCA rate is **20%** and the starting UCC was **$100,000**. Net acquisitions during the year amounted to **$10,000**. This was made up of several acquisitions and a single disposal of an item that was originally purchased for **$15,000**. ABC Corp’s tax rate is **40%.** When she recalculated the tax to be paid she found that it had not changed (and that she did not have to tear up the old cheque and write another).

What was the selling price of the asset that was sold?

**Question #2** **[10]**

Wojtek Przybywowiec, the financial manager of Floor Polish Supplies Corp (FPSC) has drawn up a projected income statement and balance sheet for the next year. He approaches the CEO and expresses his concern that, due to planned expansions, FPSC will run out of cash next year and that the banks will not lend any more money to FPSC.

The CEO thinks for a while and says, “Wait a bit. In your projected statements we intend selling one of our vehicles for $22,000, originally purchased for $35,000. What I suggest, is that we sell the vehicle for much less. This will lower the amount of taxes. If I look at these figures, I can see that the amount of taxes that we save will cover the cash shortfall that you had projected. That is the course of action that we should follow.”

Explain what the CEO means? What are your comments on the validity and wisdom of this course of action?

**Question #3** **[8]**

XYZ Corp buys and sells clothing. It has current assets of **200**, a current ratio of **1.25**, and COGS is **75%** of sales. What is the new current ratio after each of the following transactions? View each independently, e.g. look at (b) ignoring any effects from (a) etc.

1. Sold office furniture, originally costing $95, for $50.
2. Sell trade goods (clothing) for $50. Half is sold for cash, and the balance is sold on credit.
3. Send a cheque to a supplier of trade goods (clothing) for $50, to settle for goods purchased 30 days ago.
4. Buy trade goods (clothing) for $50 on credit.

**Question #4 \*\*** **[13]**

It is now April 30th. Witek Przybywowiec, the son of FPSC’s financial manager, intends buying a financial asset. The asset generates the following payments.

1. Each June 30th there will be a payment of **$600**. The first payment will be this coming June 30th (i.e. exactly **2 months** from now). There will be a total of **15** such payments.
2. Each December 31st there will be a payment of **$1000**. The first payment will be this coming December 31st (i.e. exactly **8 months** from now). There will be a total of **15** such payments.
3. At the same time as the last of the $1000 payments, there will be an additional lump sum payment of **$20,000**.

If the rate that should be used to value such financial assets is **10%** per annum **compounded quarterly**, what is the value of the financial asset?

**Question #5** **[5]**

If you borrow money, why is an APR rate compounded quarterly preferable to the same APR rate compounded monthly? **Do not use any numbers or formulae in your answer**!

**Question #6** **[5]**

If the EAR is **10%**,

1. What is the APR compounded **once** per year?
2. What is the APR rate compounded once every **3** years?
3. What is the APR rate compounded **3** times per year?