1. A large manufacturing company hires you to do some work on a contract basis over a two-year period. In exchange for your services, you will receive $10,000 at the end of the first fiscal year and $20,000 at the end of the second year. The opportunity cost of funds is 12 percent. What is the minimum amount that you would be willing to accept now in exchange for the promised payment stream?
2. $24,873
3. $24,512
4. $25,620
5. $25,620
6. None of the above.
7. Jeff Smith, head financial analyst at FIM Corp. needs to determine the cash flow from operations for the firm. He has obtained the following financial information: $500,000 sales, $10,000 cash dividends, $300,000 cost of goods sold, $20,000 administrative expense, $20,000 depreciation expense, $20,000 Interest expense, $10,000 purchase of plant and equipment and a $20,000 common stock repurchase. There were no changes in working capital, and a tax rate of 36% is employed. What is the operating cash flow?
8. $129,600
9. $132,400
10. $128,600
11. $126,800
12. None of the above
13. McKeown an Co. has an equity multiplier of 1.5, a total asset turnover of .25, And a profit margin of 10 percent. The president is unhappy with the current return on equity, and he thinks it could be doubled. This could be accomplished (1) by increasing the profit margin to 15 percent and (2) by increasing debt utilization. Total assets turnover will not change. What new equity multiplier, along with a 15 percent profit margin is required to double the return on equity?
14. 2.00
15. 1.307
16. 1.0375
17. 2.4025
18. 2.1429
19. Mike Scott is looking for an investment opportunity to pursue. He is considering the purchase of a small paper company. The current owners are asking $3,000,000 for the company and have disclosed that the current year’s cash flow was $150,000. Mike has decided that he would need a 10% return for a venture of this risk. Assuming a 3% inflation rate, what is the actual return on the investment?
20. 7.1%
21. 7.9%
22. 8.76%
23. 9.26%
24. 8.15%
25. You plan to begin saving for your retirement and will invest $100.00 each month for the next 20 years, after which you will begin your retirement. Assuming you earn an average 6% on your invested funds, how much money will you have saved for retirement?
26. $46,204
27. $48,635
28. $50,126
29. $52,093
30. None of the above

**USE THE FOLLOWING INFORMATION TO ANSWER 6 & 7:**

Assume Justin borrows $300,000 from a bank to buy a home at 6% interest with payments made over 30 years.

1. What is Justin’s monthly payment amount?
2. $2,201.29
3. $1,861.71
4. $1,798.65
5. $1,596.11
6. $1,610.46
7. How much interest is paid in the fourth year of the loan?
8. $21,279
9. $15,014
10. $18,665
11. $13,922
12. $17,175
13. If the profit margin for a company equals 24%, with sales totaling $14,000; interest expense equal to $900; and a tax rate is 36%; what is EBIT?
14. $6,130
15. $5,250
16. $3,360
17. $6,150
18. None of the above
19. Gonzales Catering is starting up with an initial investment in equipment of $20,000. The expected cash inflows in the following 5 years are as follows:

$5,000, $4,000, $10,000, $18,000, $20,000

However, in year 3 there was an additional cash outflow of $12,000 for a delivery van. They also purchased additional equipment in year 5 which cost $7,000. With a discount rate of 12%, what is the net present value of the Gonzalez Catering investment?

1. $7,073
2. $8,245
3. $6,725
4. $5,045
5. $9,164
6. You are looking for a new truck and see the following advertisement. “Own a new truck! No money down. Just five easy annual payments of $8,000.” You know you can get the same truck from the dealer across the street for only $31,120. What is the implicit interest rate for the advertised deal?
7. 9%
8. 8%
9. 8.5%
10. 10%
11. None of the above
12. The waiting list to buy season tickets for the Green Bay Packers is incredibly long. Your parents put you on the list when you were born. Unfortunately, you don’t receive them until you are 40 years old, long after you’ve left Wisconsin to live somewhere warmer. You decide you will take the tickets, but then sell them one year at a time. Because the ticket prices typically increase from year to year, you decide to raise the price by 10% each year. If you sell them for $400 the first year you have them, and you do this for the 30 years, what is the approximate amount you are receiving for selling the tickets worth today? Assume an annualized discount rate of 10%
13. $8,000
14. $4,712
15. $4,518
16. $8,400
17. None of the above

**USE THE FOLLOWING INFORMATION TO ANSWER 12 & 13:**

Your most recent credit card bill shows you owe $2,500 to Discover. Discover charges 3% monthly.

1. What is the effective rate of interest?
2. 41.65%
3. 42.58%
4. 40.58%
5. 43.33%
6. 44.11%
7. If you make a minimum payment each month, how long will it take to pay of the credit card balance?
8. 49.60 months
9. 46.90 months
10. 27.11 months
11. 29.10 months
12. None of the above
13. Suppose that a firm paid dividends of $300 and interest of $640. In addition, the firm raised cash by selling debt of $800 and equity of $950. What is cash flow to creditors?
14. -$160
15. -$60
16. $160
17. $640
18. $1,440
19. Which of the following is an agency cost?
20. Cost of an annual audit required by bondholders
21. Cost of interest payments to bondholders
22. Cost of wages for managers
23. Cost of dividends to shareholders
24. You will receive a $100,000 inheritance in 8 years. You could invest that money today at 10% compounded semiannually. What is your inheritance worth today?
25. $41,397
26. $45,811
27. $46,650
28. $67,683
29. $100,000
30. You need $2,000 to buy a new stereo for your car. If you have $500 to invest at 14% compounded quarterly, how long will you have to wait to buy the stereo?
31. 38 quarters
32. 8.42 years
33. 12 years
34. 40 years
35. 40 quarters
36. A firm has current liabilities of $250, a current ratio of .8 and a quick ratio of .6. Compute the level of inventory for this firm.
37. $25
38. $50
39. $105
40. $120
41. $200
42. The most recent financial statements for REM Co. are shown below:

Sales 400 Assets 1200 Debt 600

Cost 200 Equity 600

Taxes 50 Total 1200 Total 1200

NI 150

Assets and Costs are proportional to sales. Debt is not. A dividend of $90 was paid and REM wishes to maintain a consistent dividend payout ratio. Next year’s sales are projected to be $480. What is the external funds needed?

1. $240
2. $132
3. $60
4. $168
5. None of the above
6. Four years from now you will begin to receive cash flows of $75 per year. These cash flows will continue forever. If you determine the appropriate discount rate is 8%, what is the present value of these cash flows?
7. $833
8. $937
9. $699
10. $744
11. $803

Answer key

1. A
2. A
3. A
4. E
5. A
6. C
7. E
8. D
9. D
10. A
11. B
12. B
13. B
14. A
15. A
16. B
17. E
18. B
19. D
20. D