UCLA- ENG 111 MIDTERM WINTER 2016 Mel Bulu Taciroglu

Student NAME:______________________ STUDENT ID:_________________

Multiple Choice Questions (3 points each)

1. Which of the following <u>is correct</u> about a company that goes public (sells its shares to the general public)?

a) It collects funds at no cost
b) Financial Statements need not to be made public
c) Since more people own the company, it becomes harder to take over
d) Management gains more control over company related decisions
e) Company gains more visibility

2. Which of the following <u>is NOT correct</u>?

a) Net Working Capital is needed to manage short term operations.
b) Capital Structure refers to the fixed asset composition of a company.
c) Increasing stockholders' equity is a widely accepted financial objective.
d) If a company goes bankrupt, debt holders are paid before stockholders.
e) Agency problem refers to the conflict of interest between owners and managers.

3. Which of the following <u>is correct</u> about the assets of a company appearing in its balance sheet?

a) Current assets refer to those assets that can be turned into cash within 6 months with no major loss of value.
b) Accounts receivables are the sales made on credit that needs to be collected every 3 months.
c) Inventory is recorded at the price that is expected to be obtained at sale.
d) Intangible assets are considered current assets.
e) In most cases, intangible assets do not reflect the entire intangible asset holdings of a company.

4. A company decides to buy back its stocks with cash in order to improve its profitability and market value ratios. A Stock buyback <u>would NOT</u> lead to:

a) Increase in Return on Equity
b) Increase in Return on Assets
c) Increase in Earnings per Share
d) Increase in Profit Margin
e) None of the above

5. An increase in which of the following accounts increases a firm's current ratio without affecting its quick ratio?

a) Accounts payable
b) Cash
c) Inventory
d) Accounts receivables
e) Notes Payable

6. According to the Generally Accepted Accounting Principles:

a) Sales are recorded in balance sheet even though no cash transfer has yet taken place.
b) Intangible assets do not depreciate.
c) Taxes have to be paid in the year they are due.
d) Assets are recorded according to how liquid they are with less liquid ones recorded first.
e) Revenue coming from a one-time sale of a plant or an equipment cannot be recorded under the operating section of income statement.

7. According to the corporate tax rules:

a) A small business and a mid-size business have the same average tax rate.
b) A small business and a mid-size business have the same marginal tax rate.
c) Sole proprietorships will be subject to corporate taxes if their revenue exceeds $10 million.
d) Marginal tax rate will be higher than the average tax rate regardless of the size of the revenue.
e) There is a downward trend in the average effective tax rate US companies pay.

8. Which two of the following represent the most effective methods of directly evaluating the financial performance of a firm?
I. comparing the current financial ratios to those of the same firm from prior time periods
II. comparing a firm's financial ratios to those of other firms in the firm's peer group who have similar operations
III. comparing the financial statements of the firm to the financial statements of similar firms operating in other countries
IV. comparing the financial ratios of the firm to the average ratios of all firms located in the same geographic area

a) I and II only
b) II and III only
c) III and IV only
d) I and IV only
e) I and III only

9. A company has a current ratio that is comparable to industry standards but a quick ratio that is below the industry standards. What ratio would you check to assess whether this situation constitutes a problem for the company?

a) Fixed asset turnover
b) Price-earnings ratio
c) Cash coverage ratio
d) Return on Assets
e) Days' sales in inventory

10. When would an investor be worried about a high Equity Multiplier?

a) If inventory turnover is low
b) If P/E ratio is low
c) If profit margin is high
d) If market capitalization is unstable (changing from day to day)
e) If total asset turnover is low

11. For which of the following situations you would expect to see a cash coverage and interest coverage ratios that are close to each other?

a) For a highly capital intensive industry
b) For a company with high market capitalization
c) For a company with no long term debt
d) For a company that has replaced its entire fixed capital in recent years
e) For a company with a high P/E ratio

12. A company's inventory turnover ratio is decreasing over time. This is consistent with:

a) Company may be holding same amount of inventory on average but its sales may be increasing
b) Company is getting better in inventory management with higher and higher days' sales in inventory
c) Company sales are stable but average daily inventory is getting lower
d) Company's market capitalization may be getting higher
e) The industry in which the company operates may be experiencing a recession

13. A company has an unusually low receivables turnover ratio. What may be an explanation for this?

a) The ratio might have been calculated using entire sales rather than sales on credit
b) Company may be making only a small portion of its sales on credit and mostly working with cash
c) Company's days' sales in receivables is low
d) Company is not able to collect cash from its customers
e) None of the above

14. (10 points) Following table gives the <u>Assets side</u> of Company M's Balance Sheet as of Dec 31st 2014 and Dec 31st 2015.

In thousands $	Dec 31st 2014	Dec 31st 2015
Cash	2,540	3,120
Receivables	85	134
Inventory	192	400
Plant&Equipment	12,040	14,600
Intangible Assets	740	700

a) How much Total Equity Company M has if its Net Working Capital is $930K and $1,080K for 2014 and 2015 respectively and it does not carry any long term debt?

b) Company M has a policy of distributing 50% of its earnings as dividends each year. What is Company M's Net Income for 2015 if no stock was purchased or sold during 2015?

c) Company M's total asset turnover is 0.70 for 2015. What is total sales for 2015?

d) What is the Profit Margin for 2015?

e) Investors are not happy with Company M's Return on Equity. What can Company M do to address this?

15. (4 points) A firm has sales of $1,200, net income of $200, net fixed assets of $500, and current assets of $300. The firm has $100 in inventory. What is the common-size statement value of inventory?

16. (4 points)The 2014 COGS (cost of goods sold) are $35 million, revenue is $70 million and $5 million is the 12/31/2014 inventory. Based on year end data, what are Days' Sales in Inventory?

17. (6 points) Atlas Industries has accounts receivables of $500, ROE of 0.10, D/E of 2/3, Asset Turnover of 0.2 and Net Income of $3,000. On average, how long does it take Atlas to collect the payment on the credit sales if 50% of all sales occur on credit?

18. (4 points) Write one positive and one negative aspect of forming a business as a corporation or sole proprietorship:

	Positive	*Negative*
Corporation		
Sole Proprietorship		

19. (9 points)

	2007		2007
Cash	310	*Acc. Pay.*	2,720
Acc. Rec.	2,640	*Notes Pay.*	100
Inventory	3,275	*Total Cur. Liab.*	2,820
Total Cur. Ass.	6,225	*Long Term Debt*	7,875
Net Fixed Ass.	10,960	*Common Stock*	5,000
Total Assets	17,185	*Retained Earnings*	1,490
		Total Liab. & Eq.	17,185

	2008
Sales	9,610
COGS	6,310
Depreciation	1,370
EBIT	1,930
Interest	630
Pretax Income	1,300
Tax	455
Net Income	845

You can find the Balance Sheet as of 31st December 2007 and Income Statement as of December 31st 2008 for a company.

For 2008, C(A) is $430, Net Capital Spending is $1,080 and change in Net Working Capital from the end of 2007 to the end of 2008 is $1,335.

Net New Long Term Borrowing for 2008 is $225.

a) What is the Net Fixed Assets as of the end of 2008?

b) What is the Net Working Capital as of the end of 2008?

c) If a total of $275 is distributed as dividends in 2008, has the company sold or purchased any stocks?

CURRENT EVENT QUESTIONS:

For each of the following statements, circle TRUE or FALSE.
<u>Explain "Why?"</u> with one or two sentences (2 points each)

20. TRUE / FALSE : "Scalability" refers to the ease with which a company can increase its Net Working Capital.

21. TRUE / FALSE : Obtaining a one-time payment or multiple payments from a customer constitutes the basis of a Revenue Model.

22. TRUE / FALSE : As the stock price of a company goes up, the Balance Sheet would not be affected but the Profit Margin would immediately go up.

23. TRUE / FALSE : Proxy Fight refers to the conflict of interest between managers and the employees of a company.

24. TRUE / FALSE : Increased network externalities contribute to increased competition in tech markets.

25. TRUE / FALSE : Acquisition of other companies is Lyft’s major competition strategy in cab hailing market.

26. TRUE / FALSE : Falling D/E ratio of companies can be seen as an indicator of economic recovery.

27. TRUE / FALSE : Tesla may not have any financial gains due to public sharing of its patents.

28. TRUE / FALSE : US companies has higher D/E ratio than other countries.

29. TRUE / FALSE : Managers should not focus on the current stock value because doing so will lead to an overemphasis on short-term profits at the expense of long-term profits.

30. TRUE/FALSE: Many US companies have their headquarters moved to Ireland. The major reason behind this can be given as these companies’ willingness to establish themselves as ‘international companies’ and to have a positive impression in the eyes of the European consumers.

31. TRUE/FALSE: “A value company” refers to a company whose growth rate is greater than average industry growth rate.

Market Value Measures	Market Capitalization = Price per share * # Shares Outstanding P/E Ratio = Price Per Share / Earnings Per Share
Accounting Ratios	Current Ratio = Current Assets/ Current Liabilities Quick Ratio = (Current Assets – Inventory) / Current Liabilities Cash Ratio = Cash / Current Liabilities Total Debt Ratio = (Total Assets – Total Equity) / Total Assets Debt/Equity = Total Debt / Total Equities Equity Multiplier = Total Assets / Total Equity Times Interest Earned = (Earnings Before Interest And Taxes) / Interest Cash Coverage = (EBIT + Depreciation + Amortization) / Interest Inventory Turnover = Cost of Goods Sold / Inventory Days’ Sales in Inventory = 365 / (Inventory Turnover) Receivables Turnover = Sales / Accounts Receivable Days’ Sales in Receivables = 365 / Receivables Turnover Total Asset Turnover = Sales /Total Assets Profit Margin = Net Income / Sales Return on Assets = Net Income / Total Assets Return on Equity = Net Income / Total Equity EBITDA Margin = EBITDA / Sales Capital Intensity = Total Assets / Sales
Financial Cash Flow	C(A)=C(B)+C(S) C(A) =OCF- Change in NWC – Cash Flow to Fixed Assets OCF=EBIT+Depreciation-Tax Change in NWC = Ending NWC – Beginning NWC Cash Flow to Fixed Assets = Ending NFA-Beginning NFA+Depreciation (if we use the gross fixed assets, then = Ending Gross Fixed Assets – Beginning Gross Fixed Assets)

	C(B) = Interest-(Ending Long Term Debt – Beginning Long Term Debt) C(S) = Dividends – (Stocks sold- Stocks purchased)