

# **BUSI 2504i - FINAL EXAM PRACTICE QUESTIONS**

## **CHAPTER 2 - CASH FLOW**

1. Your firm has total sales of \$1,190. Costs are \$685 and depreciation is \$138. The tax rate is 34 percent. The firm has \$78 in interest expenses. What is the operating cash flow?

## **CHAPTER 5 - TIME VALUE OF MONEY**

2. What is the future value of \$3,196 invested for 11 years at 5.50 percent compounded annually?
3. What is the present value of \$14,150 to be received 5 years from today if the discount rate is 4.75 percent?
4. One year ago, you invested \$2,710. Today it is worth \$3,600.50. What rate of interest did you earn?

## **CHAPTER 6 - DISCOUNTED CASH FLOW**

5. Marko, Inc. is considering the purchase of ABC Co. Marko believes that ABC Co. can generate cash flows of \$5,600, \$8,300, and \$14,100 over the next three years, respectively. After that time, they feel the business will be worthless. Marko has determined that a 13 percent rate of return is applicable to this potential purchase. What is Marko willing to pay today to buy ABC Co.?
6. One year ago, the Jenkins Family Fun Center deposited \$3,300 in an investment account for the purpose of buying new equipment four years from today. Today, they are adding another \$6,000 to this account. They plan on making a final deposit of \$7,300 to the account next year. How much will be available when they are ready to buy the equipment, assuming they earn a 7 percent rate of return?
7. Mr. Miser loans money at an annual rate of 21 percent. Interest is compounded daily. What is the actual rate Mr. Miser is charging on his loans?

## **CHAPTER 7 - BONDS**

8. The bonds issued by Jensen & Son bear a 6 percent coupon, payable semiannually. These bonds mature in 9 years and have a \$1,000 face value. Currently, the bonds sell at par. What is the yield to maturity?
9. Wine and Roses, Inc. offers a 8 percent coupon bond with semiannual payments and a yield to maturity of 8.73 percent. The bonds mature in 9 years. What is the market price of a \$1,000 face value bond?

10. Dawe, Inc. offers a 6 percent coupon bond with annual payments. The yield to maturity is 4.85 percent and the maturity date is 8 years. What is the market price of a \$1,000 face value bond?

## CHAPTER 8 - STOCKS

11. Michael's, Inc. just paid \$1.80 to its shareholders as the annual dividend. Simultaneously, the company announced that future dividends will be increasing by 4.90 percent. If you require a rate of return of 8.9 percent, how much are you willing to pay to purchase one share of Michael's stock?
12. Leslie's Unique Clothing Stores offers a common stock that pays an annual dividend of \$2.20 a share. The company has promised to maintain a constant dividend. How much are you willing to pay for one share of this stock if you want to earn a 12.4 percent return on your equity investments?
13. The common stock of Eddie's Engines, Inc. sells for \$26.71 a share. The stock is expected to pay \$2.00 per share next month when the annual dividend is distributed. Eddie's has established a pattern of increasing its dividends by 4.6 percent annually and expects to continue doing so. What is the market rate of return on this stock?
14. Shares of common stock of the Samson Co. offer an expected total return of 14.6 percent. The dividend is increasing at a constant 7.0 percent per year. The dividend yield must be:
15. Weisbro and Sons common stock sells for \$21 a share and pays an annual dividend that increases by 5 percent annually. The market rate of return on this stock is 9 percent. What is the amount of the last dividend paid by Weisbro and Sons?

## CHAPTER 9 - CAPITAL BUDGETING

16. What is the net present value of a project with the following cash flows and a required return of 12 percent?

<u>Year</u>	<u>Cash Flow</u>
0	\$-29,000
1	\$12,450
2	\$19,330
3	\$2,550

17. What is the internal rate of return on an investment with the following cash flows?

<u>Year</u>	<u>Cash Flow</u>
0	\$-122,000
1	\$35,900
2	\$54,100
3	\$48,000

## CHAPTER 13 - RISK AND RETURN

18. The risk-free rate of return is 5 percent and the market risk premium is 10 percent. What is the expected rate of return on a stock with a beta of 1.40?
19. The common stock of Flavorful Teas has an expected return of 17.00 percent. The return on the market is 11 percent and the risk-free rate of return is 3.5 percent. What is the beta of this stock?
20. The stock of Big Joe's has a beta a 1.36 and an expected return of 12.0 percent. The risk-free rate of return is 3 percent. What is the expected return on the market?
21. The expected return on HiLo stock is 13.64 percent while the expected return on the market is 11.0 percent. The beta of HiLo is 1.4. What is the risk-free rate of return?

## CHAPTER 14 - WEIGHTED AVERAGE COST OF CAPITAL

22. Martin Industries just paid an annual dividend of \$1.30 a share. The market price of the stock is \$24.60 and the growth rate is 5 percent. What is the firm's cost of equity?
23. The Bet-r-Bilt Company has a 5-year bond outstanding with a 5.64 percent coupon. Coupons are paid semi-annually. The face amount of the bond is \$1,000. This bond is currently selling for 96 percent of its face value. What is the company's pre-tax cost of debt?
24. The Auto Group has 1,100 bonds outstanding that are selling for \$1,040 each. The company also has 7,200 shares of preferred stock at a market price of \$55 each. The common stock is priced at \$31 a share and there are 31,000 shares outstanding. What is the weight of the preferred stock as it relates to the firm's weighted average cost of capital?
25. Jack's Construction Co. has 60,000 bonds outstanding that are selling at par value. Bonds with similar characteristics are yielding 8.5 percent. The company also has 3 million shares of common stock outstanding. The stock has a beta of 1 and sells for \$40 a share. Treasury bills are yielding 4 percent and the market risk premium is 9 percent. Jack's tax rate is 35 percent. What is Jack's weighted average cost of capital?
26. Antonio's is analyzing a project with an initial cost of \$49,000 and cash inflows of \$35,000 a year for 3 years. This project is an extension of the firm's current operations and thus is equally as risky as the firm. The firm uses only debt and common stock to finance its operations and maintains a debt-equity ratio of 0.45. The pre-tax cost of debt is 6 percent and the cost of equity is 10 percent. The tax rate is 33 percent. What is the projected net present value of this project?

27. The Gilbert Co. uses 60 percent common stock, 15 percent preferred stock, and 25 percent debt as its capital structure. The flotation costs are 3 percent for debt, 8 percent for preferred stock, and 7 percent for common stock. What is the weighted average flotation cost?

## **CHAPTER 15 - RAISING CAPITAL**

28. Your firm is expanding and you need \$11 million to help fund this growth. You estimate that you can sell new shares of stock for \$30 a share. You also estimate that it will cost you \$200,000 for legal, accounting, and other costs related to the stock issue. The underwriters have agreed to a 5 percent spread. How many shares of stock must you sell if you are going to have \$11 million available for your expansion needs?
29. Lodge Enterprises plans on raising \$30 million through a rights offering. The subscription price is set at \$30. Currently, the company has 3 million shares outstanding with a current market price of \$34.48 a share. Each shareholder will receive one right for each share of stock he or she currently owns. How many rights will be needed to purchase one new share of stock in this offering?

## **CHAPTER 20 - CREDIT MANAGEMENT**

30. Your supplier grants you credit terms of 1/20, net 55. What is the effective annual rate of the discount if you purchase \$1,600 worth of merchandise?

## **CHAPTER 21 - INTERNATIONAL CORPORATE FINANCE**

31. How many euros can you get for \$2,800 given the following exchange rates?

Country: Euro  
C\$ Equivalent: 1.3525  
Currency per C\$: 0.7394

32. Currently, C\$1 will buy US\$0.91 while C\$1.45 will buy €1. What is the exchange rate between the U.S. dollar and the euro?
33. The spot rate for the Japanese yen currently is ¥117 per \$1. The one-year forward rate is ¥114 per \$1. A risk-free asset in Japan is currently earning 4 percent. If interest rate parity holds, approximately what rate can you earn on a one-year risk-free Canadian security?

## Answer Key

1. \$407
2. \$5,759.48
3. \$11,219.83
4. 32.86 percent
5. \$21,227.88
6. \$21,436.01
7. 23.36 percent
8. 6.00 percent
9. \$955.13
10. \$1,074.78
11. \$47.20
12. \$17.74
13. 12.09 percent
14. 7.6 percent.
15. \$0.80
16. \$-659.13
17. 6.13 percent
18. 19.00 percent
19. 1.80
20. 9.62 percent
21. 4.4 percent
22. 10.55 percent
23. 6.59 percent
24. 15.83 percent
25. 10.51 percent
26. \$40,964.32
27. 6.1 percent
28. 392,983 shares
29. 3.0 rights
30. 11.1 percent
31. €2,071
32. US\$0.91 = €0.6897
33. 6.74 percent