

## Exam “Corporate Finance” (60 points):

### Tests

(Each test has the only one correct answer. Please, **highlight** the correct answer. You can type Your decision under the test, if it is needed. Every test with correct answer is evaluated by 2 points):

**1. Which of the following types of business organization is more likely to enter into long-term contracts?**

- a. sole proprietorships
- b. partnerships
- c. corporations**
- d. any of the above

**2. Choose the fixed asset from the list:**

- a. accounts payable
- b. registered capital
- c. vehicle**
- d. bank credit

**3. Which of the following statements best summarizes what a business partnership is all about?**

- ~~a. Partners own the partnership's assets together.~~
- b. Partnerships can harness the skills and expertise of more than one person.
- c. A partnership involves two or more persons engaged in economic activity.**
- d. Partners need careful planning to succeed in business.

**4. Choose the current asset from the list:**

- a. building
- b. inventories**
- c. provisions
- d. accounts payable

5. The beginning inventory at the firm was 15 units, which were purchased last year at \$12 each. During current year company purchases 7 units at \$13 apiece, and later, 4 units at \$14 apiece. The company sells 11 units during the current year. **Which of the following inventory valuation methods yields the lowest ending inventory value for this inventory item?**

- a. FIFO
- b. LIFO**
- c. weighted average
- d. All these methods yield the same value for ending inventory.

FIFO:

Beginning inventory 15units \* \$12

Purchases 7 units \* \$13

Ending inventory 4 units \* \$14

Sells 11 units \* \$12 = \$132

**Ending inventory value 15 units:**

Beginning inventory (15-11) units \* \$12 = 4 units \* \$12

Purchases 7 units \* \$13

Ending inventory 4 units \* \$14

**Ending inventory value 15 units: 4 units \* \$12 + 7 units \* \$13 + 4 units \* \$14 = \$195**

LIFO

Beginning inventory 15units \* \$12

Purchases 7 units \* \$13

Ending inventory 4 units \* \$14

Sells 11 units:

7 units \* \$13 + 4 units \* \$14 = \$147

**Ending inventory value 15 units \* \$12 = \$180**

Weighted average:

Beginning inventory 15units \* \$12

Purchases 7 units \* \$13

Ending inventory 4 units \* \$14

Sells 11 units:

15units \* \$12 + 7 units \* \$13 + 4 units \* \$14

----- = \$12,6

26

Sells 11 units \* 12,6 = 138,6

**Ending inventory value 15 units \* \$12,6 = \$189**

**6. Choose the intangible asset from the list:**

a. Transport

b. Inventories

c. Accounts receivable

**d. Trade mark**

**7. What is the formula of the operational cycle:**

a. Days Inventory Outstanding + Days Sales Outstanding – Days Payables Outstanding

b. Production cycle+ Days Sales Outstanding

c. Production cycle – Days Payables Outstanding

d. Days Inventory Outstanding – Days Sales Outstanding + Days Payables Outstanding

**8. The expression that describes the terms of goods delivery: “n/m netto e” the symbol “m” means:**

a. discount;

b. the period of discount;

c. the term of accounts receivables;

d. banking interest rate;

e. no correct answer.

5% / **11 the period of discount** netto 35 days

**9. With increasing of accounts receivable turnover index twice, the period of its turnover will:**

a. reduce four times;

b. remain unchanged;

c. increase four times;

d. reduce twice;

e. increase twice.

Days Sales Outstanding = Accounts Receivable turnover =  $360 / (2 * (\text{net revenue} / \text{accounts receivable}))$

$$360 / 2 = 180$$

$$360 / 4 = 90 \text{ days}$$

**10. What is the formula of cash liquidity:**

a. ~~Current assets/ Current liabilities~~

b. (Current assets – inventories)/ Current liabilities;

c. (Cash and marketable securities + Short-term financial investments + Accounts receivable)/ Current liabilities

d. (Cash and marketable securities + Short-term financial investments)/ Current liabilities

**11. The Coral Reef Adventure Resort plans to transport guests to its underwater facility in a submarine. The sub cost \$250,000, has a salvage value of \$10,000, and has an estimated useful life of 48,000 hours, or 6 years' use. During the first year of the sub's operation, it was used for 8,000 hours. What method of depreciation will give the lowest value for the first year:**

a. straight-line method

**b. units of production method**

c. sum-of-the-years' digits method

d. double declining balance method

Original value = \$250,000

Salvage Value = \$10,000

Useful life = 6 years

Straight line method

$$250000 - 10000 / 6 = \$40000$$

Double declining balance method

Annual depreciation = Book value \* 2 / useful life

Book value = Original Value – Accumulated Depreciation

I accumulated depreciation = 0

I Annual depreciation =  $(250000 - 0) * 2 / 6 = \$83333$

Sum-of-the-years' digits method

$(\text{Original Value} - \text{Salvage value}) * \text{quantity of years to the end of useful life}$

-----

$$1+2+3+4+\dots + \text{useful life}$$

$$(250000-10000) * 6$$

$$\text{-----} = \$68571$$

$$1+2+3+4+5+6$$

Units of production method

Annual depreciation = Annual amount of production from asset \* (original value – salvage value) / total amount of production asset

48000 hours = 6 year

8000 hours = x

$X = (48000 / 8000 * 6) = 1 \text{ year}$

Annual depreciation =  $1 * (250000-10000) / 6 = \$40000$

**12.what items belong to debts:**

- a. registered capital
- b. Reserve capital
- c. Short-term financial investments
- d. Short-term bank credit
- e. received notes

**13. there are the following types of the working capital financing policies :**

- a. aggressive, stabilizing, moderate;
- b. stimulating, supportive, aggressive;
- c. moderate, conservative, aggressive;
- d. effective, passive, active;
- e. conservative, active, moderate.

**14. The income statement is the report:**

- a. about incomes and expenses of the company;
- b. that reflects changes in equity during the reporting period;
- c. about the financial state, which reflects assets, liabilities and equity;
- d. which reflects the cash inflow, outflow;
- e. the excess of expenditure over income.

**15. formula of net working capital:**

- a. current assets – current liabilities
- b. fixed assets – Accruals and deferred income
- c. current liabilities – current assets
- d. Prepayments and deferred costs + Accruals and deferred income
- e. current assets + Long-term liabilities

**Tasks**

**Please, type Your decision of each task. Every task with correct answer is evaluated by 6 points)**

**Task 1**

**what item of the balance sheet contains:**

- issued shares – Equity (Registered Capital)
- repurchased shares – Equity (Treasury shares)
- issued bonds – Long-term debt
- bought shares – Financial investments
- bought bonds - Financial investments
- received notes – Accounts Receivable
- issued notes – Liabilities (Accounts Payable)
- financial leasing – Long-term Liabilities

## Task 2

**Determine, which type of activity (Operating, Financing, Investing) are the following operations:**

- Company paid dividends to shareholders – Financing activities
- Company bought shares of another firm – Investing activities
- Company produced goods – Operating activities
- Company attracted bank credit – Financing activities
- Company paid back bank credit – Financing activities
- Company paid salary to workers – Operating activities
- Company opened the deposit account in the bank – Investing activities
- Company issued shares – Financing Activities
- Company received dividends – Investing Activities
- Company bought new building – Investing Activities
- Company bought raw materials – Operating Activities

## Task 3:

**what kind of changes in balance sheet cause next business operations:**

### Balance sheet:

Assets	Equity+Liabilities=Total Capital
1. Company issued and sold bonds 18000	
Cash and marketable securities +18000	Liabilities +18000
2. Company bought current financial investments 4600	
Cash and marketable securities - 4600 Short-term financing investments +4600	
3. Company returned the long-term bank credit 25000	
Cash and marketable securities - 25000	<del>Long-term bank credit +25000</del> <b>Long-term bank credit - 25000</b>

## Task 4

Enterprise's property is 25000, accumulated depreciation is 50% from the Fixed assets original value, raw materials 1000, cash liquidity 0,6, finished product 1200, incomplete production is 80% from finished product, Accounts receivable 1000, cash?, autonomy 60%, Long-term bank credit 560, 40% of the Current liabilities is Short-term bank credit. **Form the simplified balance sheet, find the Fixed assets original value.**

<b>Assets 25000</b>	<b>Equity + Debts 25000</b>
<b>Fixed assets <del>18952</del> <b>15176</b></b>	<b>Equity 15000</b>
<b>Current assets <del>6048</del> <b>9824</b></b>	<b>Long-term debts 560</b>
<b>-inventories 1000 + 1200+960</b>	<b>Short-term debts 9440</b>

-cash 1888-5664	-accounts payable 5664
-Accounts receivable 1000	-short-term bank credit 3776

Cash Liquidity = Cash ratio = Cash + short-term investments / Current liabilities  
Current Liabilities = Short-term debts

Autonomy = Equity Ratio = Equity / (Equity + Liabilities)

60% = Equity / 25000

Equity = 15000

Fixed assets = Assets – Currents assets

Fixed Assets = 18952

short-term bank credit = 40% \* 9440 = 3776

Accounts payable = Short-term debts – short-teem bank credit = 5664

~~0,6 = (Cash + 3776) / 9440    Cash + 3776 = 5664    Cash = 1888~~

Cash Liquidity = Cash ratio = (Cash + short-term investments 0) / Current liabilities=0.6

Cash = 0.6\*9440 - 0=5664

Balance value = original value – depreciation

Balance value = fixed assets 18952-15176

Original Value = 18952-15176 / 50% = 18952-15176\* 2 = 37904-30352

### Task 5

Company attracted bank credit in amount 20000 for 4 years with annual interest rate 13%. Calculate cash outflows, that company has to pay to the bank each year and define total amount of financial costs.

1 year:  $20000/4+20000*13\% = 5000 + 2600 = 7600$

2 year:  $20000/4+(20000-5000)*13\% = 5000 + 1950 = 6950$

3 year:  $20000/4+(20000-5000-5000)*13\% = 5000 + 1300 = 6300$

4 year:  $20000/4+(20000-5000-5000-5000)*13\% = 5000 + 650 = 5650$

Total amount =  $7600 + 6950 + 6300 + 5650 = 26500$

financial costs???