

MGMT 2023 Financial Management 1 – Tutorial Sheet # 1\_Due September, 30 2017, 11:55 PM ECT.

To be posted to Moodle using the Quiz Activity Resource.

This paper will be out of a total of 55 points and will contribute up to 4% of your course work marks. Two attempts are allowed in Moodle and the higher of the two attempts will be entered in the grade book.

1. Complete the following sentences with the most appropriate term or phrase:
  - a. The primary goal of a financial manager should be \_\_\_\_\_.
  - b. Firms raise capital by selling newly issued securities in the \_\_\_\_\_ markets, while existing, already outstanding securities are traded in the \_\_\_\_\_ markets.
  - c. Markets for short-term debt securities are called \_\_\_\_\_ markets, while markets for long-term debt and equity are called \_\_\_\_\_ markets.
  - d. \_\_\_\_\_ bring together people and organizations wanting to borrow money with those having surplus funds.
  - e. The primary disadvantage of the corporate form of organization is \_\_\_\_\_.
  - f. New York Stock exchange is an example of a \_\_\_\_\_ market.
  - g. An Initial Public Offering is a \_\_\_\_\_ market transaction.
  - h. The \_\_\_\_\_ or the securities traded differentiates the money market from the capital market.
  - i. The financial controller of a company is typically responsible for \_\_\_\_\_.
  - j. In a dealer market, the buyer and seller are not brought together directly but instead have their orders executed on the \_\_\_\_\_.

(10 points)

2. Select all that is true about the financial markets.
  - a. Financial markets bring the buyers and sellers of debt and equity together.
  - b. On a typical day in the US the largest volume of trading in auction markets occurs in the OTC market.
  - c. Securities traded between two shareholders happen in the primary market.
  - d. When a firm first sells shares to the public this is a primary market transaction.
  - e. Stocks trading on an organized exchange such as the NYSE are also referred to as listed securities.
  - f. The OTC market has a central location and is also an auction market.

(5 points)

3. Select all that is true about the role of financial managers and the types of financial decisions they make.
  - a. Determining the appropriate level of inventory is a working capital management function.
  - b. The optimal financial management strategy of a financial manager is to reduce the overall risk level of the firm.
  - c. The duties of the financial manager includes determining the capital structure and which projects the firm should undertake.

- d. Capital Budgeting function involves planning and determining the firm's short term investments.
  - e. Capital structure describes the mix of short-term liabilities a firm uses to finance its short-term assets.
  - f. Size and timing of cash flows is important in a capital budgeting decision.
- (5 points)
4. Which of the following statements is (are) correct about the Balance Sheet and Income Statement?
- a. The income statement reflects a summary of activity that occurs over some period of time.
  - b. The balance sheet is a snapshot taken at a single point in time.
  - c. The balance sheet reflects the market value of the firm.
  - d. The balance sheet is a financial statement summarizing a firm's performance over a period of time.
- (3 points)
5. Bogus Goods Corp. has retained earnings for last year of \$300, and had common stock of \$220, paid-in surplus of \$180. The firm earned net income of \$200 and paid a \$40 dividend this current financial year. Determine the balance for Bogus Goods end of year retained earnings.
- (3 points)
6. Nike has the following end of year balances. Compute its long-term debt balance.
- Cash \$30
  - Accounts payable \$20
  - Net fixed Asset \$220
  - Inventory \$90
  - Stockholder's Equity \$50
  - Accounts receivable \$30
- (3 points)
7. You have been hired by ABC Company to determine the total market value of its assets. You started off by looking at its current Balance Sheet. Total assets, cash and receivables are \$23,000, \$3,000 and \$4,200 respectively. Current market value of fixed assets is \$17,400. The firm has some inventory worth \$6,900 today. Assuming that these are all the firm's assets, what is the outcome of your assessment?
- (5 points)
8. Which of the following statements are true? Select all that apply.
- a. By adding the current market value of a publicly traded stock and the current market value of the firm's debt, will equal the total market value of the firm.
  - b. An asset which is sold quickly no matter the price, is considered a liquid asset.
  - c. The income statement accurately measures a firm's operating cash flows.

- d. Depreciation expense is a non-cash item on the balance sheet.
- e. The cash flow from assets include operating cash flow, net capital spending and additions to net working capital.
- f. Cash flow to stockholders is equal to dividends paid less net new equity.
- g. Cash flow from assets may still be positive even though operating cash flow is negative.
- h. Cash flow to creditors minus cash flow to stockholders is equal to cash flow from assets.

(5 points)

9. Given the following information, what is the amount of the Operating Cash Flow?

Sales	\$16,500
Operating expenses	\$3,118
COGS	\$10,350
Depreciation	\$1, 120
Interest Expense	\$900
Tax Rate	34%

(3 points)

10. XYZ Company Ltd. in 2016 purchased new equipment worth \$400 and sold its old ones for \$611 cash. Its net working capital declined by \$73 and its cash flow from operations is \$938. What is its cash flow from assets?

(3 points)

11. Simple Company Ltd. has EBIT of \$6.5 million and a 17% tax rate. It had \$850,000 in depreciation expenses with a \$680,000 increase in working capital. It had another \$150,000 in capital expenditures. What is the company's free cash flow?

(3 points)

12. Select all that is true about the Cash flow of the firm.

- a) If dividends paid which is greater than net equity sold for the year, then the cash flow to stockholders is negative.
- b) In measuring free cash flows we are more interested in considering cash flows from an accounting perspective rather than the perspective of the firm's shareholders and investors.
- c) Net cash flow does not include after-tax interest expense.
- d) A firm which invested more cash in assets and WC than operations, will have a positive operating cash flow and a negative cash flow from assets.
- e) Positive operating free cash flows are equal to the cash flows distributed to the firm's investors (both debt and equity).
- f) FCF may be defined as net operating profit after taxes (NOPAT) minus the amount of net investment in operating working capital and fixed assets necessary to sustain the business.

(5 points)