Part One: Multiple Choice (15 marks)

1) How much must you deposit at the end of each of the next 10 years in a savings account paying 5% annually in order to have $10,000 saved by the end of the 10th year?
A) $1,000
B) $1,638
C) $1,500
D) $795

2) What is the present value of $12,500 to be received 10 years from today? Assume a discount rate of 8% compounded annually and round to the nearest $1.00.
A) $5,790
B) $11,574
C) $9,210
D) $17,010

3) If you place $50 in a savings account with an interest rate of 7% compounded weekly, what will the investment be worth at the end of five years (round to the nearest dollar)?
A) $72
B) $75
C) $71
D) $57

4) Which of the following statements is **FALSE**?
A) A dollar received one year from now will be worth more than a dollar received today.
B) A dollar received one year from now will be worth more than a dollar received two years from now.
C) Compounding essentially means earning interest on interest on an initial balance.
D) Perpetuities pay an equal payment forever

5) Grass Gadgets had sales of $50 million and net income of $4 million in 2015. Grass paid a dividend of $2.5 million. Assuming that their beginning balance for retained earnings was $3 million, calculate their ending balance for retained earnings. .
A) $2.5 million
B) $3 million
C) $3.5 million
D) $4.5 million

6) Which of the following parties would be interested in an analysis of the firm's financial statements?
A) investors
B) creditors
C) the firm's managers
D) all of the above

7) You just purchased a parcel of land for $10,000. If you expect a 12% annual rate of return on your investment, how much will you sell the land for in 10 years?
A) $25,000
B) $31,058.48
C) $38,720.2
D) $34,310.1

8) An increase in _____ will decrease present value.
A) the discount rate per period
B) the original amount invested
C) the number of periods
D) both A and C

9) Which of the following represents a cash flow from operating activities?
A) dividends paid
B) increase or decrease in current liabilities
C) increase or decrease in fixed assets
D) repurchasing stock

10) You have just purchased a share of preferred stock for $50.00. The preferred stock pays an annual dividend of $5.50 per share forever. What is the rate of return on your investment?
A) 5.5%
B) 1.0%
C) 11.0 %
D) 22.2%

Part 2: Problem-solving
Question one :(5 marks)

Ace Manufacturing, Inc. is preparing pro forma financial statements for 2022. The firm utilized the percent-of-sales method to estimate costs for the next year. Ace Manufacturing, Inc. estimates that its sales in 2022 will be 4,000,000. Interest expense is to remain <u>unchanged</u> at $80,000 and depreciation is to remain also unchanged at $40,000. The firm plans to pay <u>cash dividends</u> of $70,000 during 2022. Ace Manufacturing, Inc.'s income statement for the year ended December 31, 2021 is shown below.

Income Statement
Ace Manufacturing, Inc.
For the Year Ended December 31, 2021

Sales	$2,000,000
Less: Cost of goods sold	1,200,000
Gross profit	$ 800,000
Less: Selling expense	200,000
General & administrative expense	60,000
Less: Depreciation	40,000
Operating profit	$ 500,000
Less: Interest	80,000
Earnings before taxes	$ 420,000
Less: Taxes (21%)	88,200
Net profit after taxes/EACS	$ 331,800
Common stock dividends	$ 100,000

Question three: (10 marks)

Balance sheet and other accounts for XYZ are listed below in alphabetical order. Choose the accounts needed to construct XYZ 's balance sheet for 2021. All balance sheet accounts are shown, but some accounts will not be used. All amounts are in thousands of dollars.

Accounts payable	$1,224
Accounts receivable	$561
Additional paid in excess of par	$500
Cash	$500
Common stock @ par	$1,000
EBIT	$2,000
Interest expense	$800
Inventories	$1,620
Long-term debt	$890
Net fixed assets	$2,563
Retained earnings	$1,435
Short-term debt	$195
Tax expense	$778

Balance Sheet XYZ For the year ended Dec, 31, 2021			

Question four: (10 marks)

Harry just bought a new car. The price of the vehicle was $35,000, of which he made a $5,000 down payment and took out an amortized loan for the rest. His local bank made the loan at 12% interest for five years. He is to pay back the principal and interest in five equal annual installments beginning one year from now. **Fill in the missing values in the below loan amortization schedule.**

End of Year	Loan Payment	Beginning-of-Year Balance	Payments		End-of-Year Balance
			Interest	Principal	
1	$8,322.29	$30,000			
2	$8,322.29				
3	$8,322.29				
4	$8,322.29				
5	$8,322.29				0