

**SAMPLE QUESTIONS
CHAPTERS: 1, 2, AND 3**

1. What is the main reason that agency problem arises? What are agency costs?
2. Please explain shortly the importance of the capital structure decision.
3. Sunny World company has a debt-equity ratio of 0.80, Return on assets is 8.4 percent and total equity is \$430,000. What is the equity multiplier and Return on Equity of the company?
4. The Gold Mining Company reports the following income statement information for 2008 and 2009. Prepare a common-size income statement for the company for the year 2009.

INCOME STATEMENTS (millions of \$s)

	Year: 2008	Year: 2009	Year: 2009 Common Sized
Sales	1,000	1,200	
Operating costs	850	1,020	
Depreciation	25	30	
EBIT	125	150	
Interest Expense	20.2	21.7	
Earnings before tax	104.8	128.3	
Tax	41.9	51.3	
Net income	62.9	77.0	
Dividends	4.4	60.5	

5. White Co. shows the following operating results for 2007 income statement: sales=\$114,000, costs=\$61,200; other expenses=\$3,300; depreciation expense=\$9,600; interest expense=\$8,400; taxes=\$10,710; dividends=\$3,840. In addition, you are told that the firm issued \$7,100 in new equity during 2007, change in Net Capital Spending is \$3000 in 2007 and reduced the outstanding long-term debt by \$3,600.
 - a) What is the net income for 2007?
 - b) What is the operating cash flow for 2007?
 - c) What is the CFFA for 2007?

6. HSBC bank reports the following financial statements: Balance Sheet and Income Statement for December 2012, use the information to answer the questions below:

BALANCE SHEET (millions of \$s)

ASSETS	<u>2011</u>	<u>2012</u>	LIAB.&OWNERS' EQUITY	<u>2011</u>	<u>2012</u>
Cash	10	12	Notes pay.	90	108
A/R	150	180	Accounts payable	111.5	139
Inventories	200	180	Total current liability	201.5	247
Total current assets	360	372	Long-term bonds	150	150
			Total debt	351.5	397
Fixed Assets, Net	250	300	Common stock (50 ml. shares)	50	50
			Retained Earnings	208.5	225
			Total equity	258.5	275
TOTAL ASSETS	<u>\$ 610</u>	<u>\$ 672</u>	TOTAL LIAB. & EQUITY	<u>\$ 610</u>	<u>\$672</u>

Income Statement 2012

Sales	700
Cost	200
Depreciation	40
Other Expenses	10
EBIT	450
Interest Exp.	29
EBT	421
Tax 35%	147.35
Net Profit	<u>273.65</u>
Dividend	82.095
Addition to RE	191.555

Find the following ratios for 2012:

- a. Current Ratio
- b. Profitability Ratio
- c. Use One of the Leverage Ratios to show whether the company is leveraged.
- d. What can you say about liquidity and profitability of the bank?

7. Black Swan Shop has taxable income of \$473,745. Use the following tax table to answer these questions:

Taxable Income		Tax Rate
\$0-	\$50,000	15%
50,001-	75,000	25
75,001-	100,000	34
100,001-	335,000	39
335,001-	10,000,000	34

- a) How much does Black Swan Shop owe in taxes?
- b) What is the average tax rate and Marginal tax rate?