

INSTRUCTION: There are 10 problems. Each problem is 10 points. No credit will be given if answer is not related to the question asked.

1. Sources and Uses of Cash Consider the following balance sheets for the Wildhack Corporation. Calculate the changes in the various accounts and, where applicable, identify the change as a source or use of cash. What were the major sources and uses of cash? Did the company become more or less liquid during the year? What happened to cash during the year?

WILDHACK CORPORATION
Balance Sheets as of December 31, 1993 and 1994
(\$ in millions)

	1993	1994
Assets		
Current assets		
Cash	\$ 120	\$ 88
Accounts receivable	224	192
Inventory	424	368
Total	\$ 768	\$ 648
Fixed assets		
Net plant and equipment	\$5,228	\$5,354
Total assets	\$5,996	\$6,002
Liabilities and Owners' Equity		
Current liabilities		
Accounts payable	\$ 124	\$ 144
Notes payable	1,412	1,039
Total	\$1,536	\$1,183
Long-term debt	\$1,804	\$2,077
Owners' equity		
Common stock and paid-in surplus	300	300
Retained earnings	2,356	2,442
Total	\$2,656	\$2,742
Total liabilities and owners' equity	\$5,996	\$6,002

2. Calculating EFN Based on the following information for the Corwin Company, what is EFN if sales are predicted to grow by 20 percent? Use the percentage of sales approach and assume full capacity. The payout ratio is constant.

CORWIN COMPANY
Financial Statements

Income Statement		Balance Sheet	
Sales	\$2,750	Current assets	\$ 600
Cost of sales	2,400	Net fixed assets	800
Tax (34%)	119	Total	\$1,400
Net income	\$ 231	Long-term debt	\$ 200
Dividends	\$ 77	Equity	1,200
		Total	\$1,400

3. Dividend Growth and Stock Valuation The Brigapenski Co. has just paid a cash dividend of \$2 per share. Investors require a 16 percent return from investments such as this. If the dividend is expected to grow at a steady 8 percent per year, what is the current value of the stock? What will the stock be worth in five years?

(背面仍有題目,請繼續作答)

4. Calculating Operating Cash Flow Mater Pasta, Inc., has projected a sales volume of \$1,432 for the second year of a proposed expansion project. Costs normally run 70 percent of sales, or about \$1,002 in this case. The depreciation expense will be \$80, and the tax rate is 34 percent. What is the operating cash flow?

5. Risk and Return Suppose you observe the following situation:

Security	Beta	Expected Return
Cooley, Inc.	1.6	19%
Moyer Co.	1.2	16

If the risk-free rate is 8 percent, are these securities correctly priced? What would the risk-free rate have to be if they are correctly priced?

6. The B. B. Lean Co. has 1.4 million shares of stock outstanding. The stock currently sells for \$20 per share. The firm's debt is publicly traded and was recently quoted at 93 percent of face value. It has a total face value of \$5 million, and it is currently priced to yield 11 percent. The risk-free rate is 8 percent, and the market risk premium is 7 percent. You've estimated that Lean has a beta of .74. If the corporate tax rate is 34 percent, what is the WACC of Lean Co.?

7. The Ricardo Corporation has a weighted average cost of capital (ignoring taxes) of 12 percent. It can borrow at 8 percent. Assuming that Ricardo has a target capital structure of 80 percent equity and 20 percent debt, what is its cost of equity? What is the cost of equity if the target capital structure is 50 percent equity?

8. Residual Dividend Policy The Rapsallion Corporation practices a strict residual dividend policy and maintains a capital structure of 40 percent debt, 60 percent equity. Earnings for the year are \$2,500. What is the maximum amount of capital spending possible without selling new equity? Suppose that planned investment outlays for the coming year are \$3,000. Will Rapsallion be paying a dividend? If so, how much?

9. Relative Purchasing Power Parity The inflation rate in the United States is projected at 6 percent per year for the next several years. The German inflation rate is projected to be 2 percent during that time. The exchange rate is currently DM 2.2. Based on relative PPP, what is the expected exchange rate in two years?

10. Futures Contracts Suppose Farmer Bob expects to harvest 100,000 bushels of corn in September. He is concerned about the possibility of price fluctuations between now and September. The futures price for September corn is \$2.50 per bushel, and the contract calls for 5,000 bushels. What action should Farmer Bob take to lock in the \$2.50 price? Suppose the price of corn actually turns out to be \$3.00. Evaluate Farmer Bob's gains and losses. Do the same for a price of \$2.00. Ignore marking-to-market.